COMMITTEE HEARING

BEFORE THE

CALIFORNIA ENERGY RESOURCES CONSERVATION

AND DEVELOPMENT COMMISSION

```
In the Matter of:                  )
                                   )
Informational Proceeding and       )
Preparation of the 2005 Integrated) Docket No.
Energy Policy Report               ) 03-IEP-01
(Energy Report)                    )
___________________________________)
```

CALIFORNIA ENERGY COMMISSION

1516 NINTH STREET

HEARING ROOM A

SACRAMENTO, CALIFORNIA

WEDNESDAY, AUGUST 18, 2004

9:35 A.M.

Reported by:
Peter Petty
Contract No. 150-04-002

COMMISSIONERS PRESENT

John Geesman, Presiding Member

James Boyd, Associate Member

ADVISORS PRESENT

Chris Tooker

Michael Smith

STAFF and CONTRACTORS PRESENT

Kevin Kennedy

Sandra Fromm

ALSO PRESENT

Thomas Flynn
California Public Utilities Commission

Mohsen Nazemi
South Coast Air Quality Management District

Ken Glick
Electricity Oversight Board

Evan Hughes
Electric Power Research Institute

Stephen Heckeroth
Energy Conversion Devices, Inc.

Dan Flanagan
University of California, Irvine (teleconference)

Jane Hughes Turnbull
League of Women Voters of California

Steven Kelly
Independent Energy Producers Association

Michael L. Eaves
California Natural Gas Vehicle Coalition

ALSO PRESENT

Gina Grey
Western States Petroleum Association
(teleconference)

Jon Van Bogart
Clean Fuel USA
Propane Vehicle Council

Scott Hughes
National Biodiesel Board (teleconference)

William H. Chen
Constellation New Energy

Matt Tennis, State Lobbyist
Associated Builders and Contractors of California

Steve Friar
Coalition for Fair Employment in Construction

Joseph Kloberdanz
San Diego Gas and Electric Company
Southern California Gas Company

James A. "Nick" Nichols, III
Navigant Consulting

Manuel Alvarez
Southern California Edison Company

Les Guliasi
Pacific Gas and Electric Company

Gregory T. Blue
West Coast Power
Dynegy, Inc. and NRG Energy

Lon W. House
Water and Energy Consulting
Association of California Water Agencies

INDEX

I N D E X

P R O C E E D I N G S

9:35 a.m.

PRESIDING MEMBER GEESMAN: This is the initial session to begin scoping the level of effort for our 2005 Integrated Energy Policy Report.

I'm John Geesman, the Commission's Presiding Member for the 2005 Integrated Energy Policy Report process. To my left is Commissioner Jim Boyd, the Associate Member of the 2005 Committee. He was the Presiding Member of our 2003 report. And he and I are both on the Committee for our 2004 update. You need a program really to figure out exactly where we are. And as a state agency we don't really print programs before our hearings.

I think rather than make lengthy introductory comments I'd rather simply summarize our interest today. And that is in eliciting as much input from you, and others listening in by telephone or on the internet, as to what areas we should consider for closer scrutiny in our efforts over the course of the next year.

This is a difficult task because one needs to attempt to figure out what issues will be of greatest topical interest in energy policy toward the end of the year 2005.

The way our statute works, our report goes to the Governor in November of 2005. And then he is expected to respond to it, and the Legislature is expected to respond to him. As a consequence I'd ask you less to focus on the issues that are immediately in front of us as today's concern, and attempt to put yourself about 14 or 15 months into the future and determine what issues the Governor and the Legislature are most likely to be focused upon in energy toward the end of 2005.

With that I would also invite the staff to summarize its preliminary thoughts as to areas that the staff believes we should pursue over the course of the next year in the 2005 process. We expect to conduct a large number of public workshops and hearings, not only in Sacramento, but around the state, in order to gain input from as broad a sector of the public as we can.

I think we have more of a pride in process than we do in the actual written product that we produce. We're not poets, we're not novelists. Sometimes our prose is a little bit difficult to parse, but we have the most innovative population anywhere in the world called to focus upon these issues. And I think we can serve the state best if we can elicit as much input from that population as we can.

Commissioner Boyd.

ASSOCIATE MEMBER BOYD: Thank you, Commission Geesman. And I think you put the issue very very well, indeed. It's hard to dice out from all the written material that we're looking far into the future. And I'm glad you made that point.

And as I've said many many times before in what are becoming continuing hearings on the subject, the Integrated Energy Policy Report legislative requirement does, indeed, provide for literally a continuing forum for identifying and discussing, I guess on a real-time basis for a change, energy issues that face the state.

So, as you've indicated, this forum today is for all interested parties and facilitates input to the process, the staff, to the Commissioners. We are, of course, guided somewhat by the findings and recommendations of the 2003 IEPR. And we mustn't forget them. And as you indicated, the 2004 update is a vehicle that we're using to respond to some of the 2003 recommendations. And also provide even more of additional input to this 2005 process.

Therefore, closing my circle back to the beginning, this is part of what has become, and I think very necessary in the real-world, nation-state of California, a continuous forum and dialogue on the issues that face us in the energy arena, and what recommendations that folks have that we need to pursue, and what issues they identify that perhaps we haven't.

So, with that, yes, let's get to the staff and to the public input.

PRESIDING MEMBER GEESMAN: Kevin.

MR. KENNEDY: Thank you. My name is Kevin Kennedy, and I am the Program Manager for staff here at the Energy Commission on the 2005 Integrated Energy Policy Report.

I also want to quickly introduce one other person who is going to be very much helping me over the next year-plus in keeping everything on track and sort of doing the large-scale management job. And that's Sandra Fromm, who is the Assistant Program Manager, as well.

And, Sandra, if you could actually step out and say hello, just sort of let folks see you.

The first thing I want to do today is actually just very quickly handle a few logistics, starting with a welcome to everyone here in the room and also folks listening in on the webcast or on the conference call.

In terms of folks who are listening in on the webcast, if you have an interest later in calling in and making comments we do have a call-in number, and you would be able to call in. That number is 877-917-1557, and then there's a passcode "Kennedy Call". So for folks who are listening in on the webcast and want to make comments later you'll have that opportunity. I'll repeat that number a number of times as we go forward.

Just in terms of those of you here in the room today, if you're not familiar with our layout, I know many of you have been here many times before, many of you work here. But there are facilities as you go out the door of the hearing room and to the left there are restrooms, a water fountain, telephone. There's also a snack bar upstairs on the second floor if you just go up the stairs and sort of bear a little bit to the left. And if you have a need to slip out, there's that opportunity.

In terms of the timing today we are going to be a little bit open-ended as we go forward. The real purpose of the day is very much to get public comment and not so much to hear from me, but to hear from everyone here in the room and everyone listening in what it is you think is important. How long we go will depend a lot on how much everyone has to say.

We are looking at most likely breaking for lunch sometime a little bit before 1:00. My best guess, though, I could easily be off by a couple hours in either direction, as it will probably go into the middle of the afternoon today. As I say, it depends on how much comment and discussion there is as we move forward.

We also have a court reporter here today, so anyone who is making comment, be sure that you're up at a microphone. The microphone at the podium is turned on. And the court reporter will be very happy if you swing by on your way to or from the microphone with a business card or a note clearly spelling your name. That will make his job easier, as well.

In terms of what we're doing today, as I said, I'm going to be giving a relatively short presentation starting with a few words about the overall purpose of the energy report. And then a presentation on staff's proposal for where we go with the 2005 energy report.

We had published a week or so ago an about 15-page description of staff's proposal. We've laid out a very ambitious list of things that might be touched on. One of the important things we're hoping to hear from the audience today is what your sense of the real priorities should be for that.

One of the themes that we'll be touching on a lot today in my presentation is there's more on that staff proposal than staff will be capable of handling on our own. So a lot of what we're looking for is a sense of what the right priorities are, but also opportunities to make use of outside analytic resources. There's a lot of other agencies and groups that know a lot about the number of the issues that are important for energy policy in the state. We're hoping to be able to tap into that sort of expertise. And we're also looking to be able to tap into ongoing proceedings elsewhere.

My presentation won't have a lot of detail about the technical content of what we were talking about in terms of the proposal, but will focus more on the overall process.

The main part of the day will be the agency and public comment. As I mentioned, there is a call-in number, 877-917-1557, with the passcode "Kennedy Call". I'll keep repeating that because some folks listening on the webcast, some of you, I believe, will be able to see the overheads that are up on our screen. I think there's different software, you either get just the audio or also get the overheads. So I'll end up repeating that phone number a number of times.

We will also be accepting written comment following the hearing today through the close of business next Wednesday, the 25th. So if you hear something today that you want to respond to, or feel like there's a need to add some additional comment, please feel free to do so.

In terms of the energy report purpose, there's really two main purposes that are spelled out in SB-1389, which is the legislation that directed the Energy Commission to prepare this report.

The first is the development of an integrated energy policy for the state. And while that's a complicated undertaking in a lot of ways, it's a simple thing to grasp. And I think most people have a good understanding of what we're about on that.

As the law says, the Integrated Energy Policy Report shall present policy recommendations based on an in-depth and integrated analysis of the most current pressing energy issues facing the state.

The second purpose that I want to emphasize is the notion that this report is, and this proceeding is, supposed to establish a common information base. As the law says, for the purpose of insuring consistency in the underlying information that forms the foundation of energy policies and decisions affecting the state. Those entities shall carry out their energy-related duties and responsibilities based on the information and analyses contained in this report.

That call for other agencies to make use of what we develop during this proceeding, we here at the Energy Commission are reading as a directive to us, as much as to the other agencies, for the other agencies to be able and interested in using the information we develop here in their energy-related duties. It's extremely important that we work with them as we move forward in order to make sure that what we are doing here actually makes sense from their perspective, and that we are very much working together.

And we've had ongoing discussions with a variety of agencies already about how to make this process work, and we expect to have a lot of that continuing through the proceedings as we go forward.

From there I wanted to give a quick overview of the overall framework in terms of how we see the schedule playing out over the next year-plus. I'll say a little bit about each of these pieces.

During this fall and early winter we expect to have a fair number of workshops that are largely designed to help better focus the specifics of the analytic work.

The hearing today is designed to help establish the overall scope for the entire proceeding. There is going to be a need for more detailed scoping of the individual work efforts as we move forward.

Coinciding with that, in terms of the start, will also be the analytic activities undertaken by staff and by other parties. That will be starting up in a lot of ways this fall, as well; continuing through next spring. And leading to various staff reports and papers in the spring through early summer timeframe.

From there we'll be looking at hearings on those staff products, leading to the development of the final 2005 energy report, itself.

I want to say a bit more about each of those pieces. In terms of the early workshops we are looking at both using those as a way to hone the focus of each of the individual efforts. There is a lot of work that needs to go on and we will need to make sure that the effort that we put forward is on target for the issues, as Commissioner Geesman mentioned, that are going to be most important in late 2005.

These workshops will also provide a good opportunity for the various parties to weigh in on what sort of questions and methods we should be approaching the different issues with. We'll also be using them, to a large extent, to refine requests that we'll be making for data and analysis from other parties.

One of the things that we are looking to do very much in this proceeding is to make use of our ability to request data from parties in the energy industry, utilities and others. And part of that, as well, is we'll be looking for things like load forecasts and other types of analyses as well. These are things that we'll be holding specific workshops on as we move forward, probably starting in September.

In terms of the main analytic activities, that is going to range from Energy Commission Staff reports work and work by Energy Commission consultants. But it's also going to be extremely important to include analyses that are conducted in other forums.

There's a lot of work going on in the energy world. There's many activities in other proceedings here at the Energy Commission, other activities at the PUC, at the ISO, at the Air Resources Board, at the local Air Districts, all of which are important for helping address a large number of the key energy policy questions that will be facing the state as we move forward.

It will be very important for us to be able to tap into a lot of that. And in some cases there may be very good opportunities, as we get into particular issues, to make essentially specific requests of particular groups or, you know, industry groups, interest groups that may have good expertise and be able to bring something to bear in terms of taking a focused look at particular issues. So we'll be looking for opportunities along those lines as we move forward.

The analytic activity will lead to staff reports. We expect, in terms of the major reports being published, in the spring and early summer of 2005. There will be earlier reports that will help be more along the lines of issue papers, sort of short, very focused papers that intended to help focus discussion at some of the early workshops. But in terms of sort of the major reports on the analytic activities, we expect that to be happening in the spring and early summer.

Those major reports will, of course, be

subject to Committee hearings in the late spring and summer of 2005. Those hearings on the staff work will then help set the stage for development of the actual 2005 Integrated Energy Policy Report, the final energy report. I would expect a draft of that most likely to come out in around mid-September of next year.

Like last year, and like we'll be doing for the 2004 update this year, we'll expect to have hearings around the state on the draft energy report in late September or early October. The deadline for final adoption of the energy report is November 1, 2005.

Two points that I feel like I cannot emphasize enough that I want to return back to. One has to do with the fact that many of the issues that are of great interest for the energy report proceeding are being considered in other proceedings here at the Energy Commission and elsewhere. And it's going to be extremely important for us moving forward to insure that we are appropriately coordinating with those other proceedings and the other work that's going on.

Part of that coordination is going to be a question of making sure that we find ways of avoiding duplication of effort. There's a lot that will need to be done specifically for the energy report proceeding here, but there's going to be many opportunities that we'll be looking for to be able to tap into work that's going on elsewhere. Essentially incorporate that into the record so that as the Committee and the Commissioners move on to making policy recommendations in a little bit more than a year, that the record is as full as it possibly can be.

And that ties in with the need for participation. The proposal that we put out in terms of the range of topics that could be covered that was included in staff's proposal covers a very wide range of topics.

And it's going to be very important as we move forward to set priorities to insure that the most important issues are fully addressed; that other issues that may be somewhat less important probably will need some degree of attention, but maybe not the same degree of attention.

And there may be some of the topics that it would be nice if we had the opportunity to address this time around, but we may end up more setting up for the next cycle. The sense of being able to set the right priorities so that we get the right issues fully addressed come next year is going to be extremely important.

Part of what we need, as well, is the very active participation, as we move forward, of all interested and affected parties. To some degree that's showing up at hearings and workshops like this, and making comments and having your say at this sort of forum.

There will also be a fair amount of looking to the parties to submit data and analyses and comments. And there may be some opportunity for development of independent analyses as we move forward.

From there what I want to get into, as I said, the main point today is very much to try to get agency and public comment. Before we go into that I want to see whether the Commissions or anyone here has any sort of general comments or questions about the overall framework that we are proposing; opportunity to make comment on the individual topic areas that were addressed in staff's proposal and also in attachment A of the Committee's hearing notice will come later. I just wanted to check in and see whether there's any immediate questions or concerns.

If you want to go up to the microphone.

MR. GLICK: Good morning. My name is Ken Glick; I'm with the Electricity Oversight Board. I want to thank you for the opportunity to have these hearings and to receive public comment.

One question that we had is how much of this, indeed if not all of this, data, analysis and comment will be public, and how much, if any, would be treated confidential? We see confidentiality seems to be a big issue in the CPUC long-term resource planning hearing that's ongoing right now. And that has become somewhat of a problem to us in terms of getting data that we need.

So we're certainly interested in full and frank disclosure, while protecting the need of the utilities to preserve the business positions.

MR. KENNEDY: Okay. Commissioner Geesman, do you want to jump in on that?

PRESIDING MEMBER GEESMAN: Yeah, let me say, we have a different statute than the Public Utilities Commission does, and a different policy, as well.

We have historically been quite vehement about trying to conduct our business in a fishbowl. And the structure of our confidentiality regulations puts the burden of proof on the entity seeking to have confidential status provided. We have a bias against that type of arrangement.

So without casting any aspersions, beyond those which we've formally cast in the past, I think you can anticipate that this will be a fishbowl type process.

MR. GLICK: Thank you very much.

MR. KENNEDY: Any other general questions before we get into the main part of the comments?

In terms of procedure for the comments, it would be helpful if -- well, actually I was going to ask folks to fill in blue cards, but to the extent that folks already have, that will be good and useful and we'll make use of that.

Much of what we're going to be doing is sort of going through a series of topics and calling folks to come up. As I think about it at the moment I think it might be just as easy for folks to sort of self-select as we get to the individual topics. So rather than going through the blue card process, I think we won't worry about that.

In terms of the type of comment folks might be making we certainly will welcome any and all comments today. There's the opportunity to provide written comments that many folks have already taken care of. There's also the extended comment period so that if anyone hears anything today and decides that they want to or need to add either new comments or add to their previous comments we will be accepting written comment through the close of business next Wednesday.

One thing that may help focus the discussion and conversation today, if folks who are commenting can make a particular point of saying anything about which issues they believe should have the highest priority; what sort of issues seem like they need to be addressed together; and what types of analyses and assessments may be important to address those issues. Those may be particular useful to focus on in the spoken comments today. And, you know, if you want to go beyond that, that's certainly a possibility.

As I said, we will be going through various topic areas. These largely correspond to the topic areas that were covered in attachment A to the Committee's notice for this hearing. I've added at the beginning general comments. And in terms of general comments I would be calling on any agencies that want to step up and make some just general comments about views on where we are, where we should be going with the energy report proceedings. And also I know that there's a couple of groups that had commented on a very extensive number of topics in their written comments.

I am open to whether folks want to keep coming back and forth up to the microphone. If you have comments on transportation, electricity and environment, if you want to come up three times, that's fine. If you do feel like you're going to be covering a wide range of things and just want to make those comments in the beginning as part of the general comments, that will be fine, as well.

The other thing for the general comments would be the opportunity to make any comments on the overall process or framework in terms of suggestions or recommendations on how we should move forward.

And I do note that listening to the little chimes from the conference call that we do have a number of folks who have already called in. But folks listening in on the webcast who want to comment we do have a call in number which is 877-917-1557, and the passcode to get in is "Kennedy Call".

And with that I will go ahead to start with general comments. Ask whether there's anyone from any of the agencies that is interested in getting up and saying a few words?

MR. FLYNN: Good morning, Commissioners. Thomas Flynn with the California Public Utilities Commission.

We appreciate the opportunity to address you as you embark on the 2005 cycle of the IEPR. As you begin this cycle I'd like to note a couple things up front that the 2004 procurement proceeding at the PUC is well underway. And that the level of coordination and collaboration between the CEC and the PUC is at an all-time high.

Just last month California's investor-owned utilities filed their long-term procurement plans with the PUC. And to emphasize the input/output relationship between these proceedings, I'd like to note that these plans are based on and incorporate and utilize information from the previous IEPR.

Since the time that these plans were filed last month your staff, staff from the CEC, have been collaborating with PUC Staff in the review of these long-term plans. The review of these plans is truly an interagency undertaking.

And just as the outputs from the previous IEPR provided important results into the utilities' long-term procurement plans filed last month, what results from these long-term plans will, in turn, provide important inputs into this cycle of the IEPR, the 2005 IEPR.

And lastly, I'd just like to add that PUC Staff is committed to continuing this interagency coordination, and we'll do everything we can to insure that the flow of information from the 2004 procurement proceedings into the 2005 IEPR are both efficient and timely.

Thank you, again.

PRESIDING MEMBER GEESMAN: Tom, thanks

for your comments. I want to reiterate some of the direction that the Committee has provided our staff in moving to the point that we are. And that is that the Public Utilities Commission and the ISO are both two primary clients of our work. And we seek to structure the analysis that we do in such a way that it best serves your purposes, as well, in terms of the proceedings that you conduct under your legal authority.

I think that there are limited resources in state government that can be brought to bear on any of these questions, and we'll all be better served if we set up the analytic processes that we utilize so that they're most useful in the multiple forums that they're called upon to serve.

I certainly want to thank the Public Utilities Commission Staff and the Public Utilities Commission Members for the level of cooperation and assistance that we've enjoyed since the 2003 report was adopted. And frankly, before that, as well. I think that the energy action plan as served as a useful framework to bring us together. And I look forward to seeing that the 2005 process improves upon that.

MR. FLYNN: Thank you.

MR. NAZEMI: Good morning. My name is Mohsen Nazemi. I am the Assistant Deputy Executive Officer with South Coast Air Quality Management District. And I want to also appreciate the opportunity to participate in this workshop and provide comments.

What I'd like to offer here is our agency's full participation and support in development of the 2005 Integrated Energy Policy Report. We are willing and are very interested to provide our input into this development of this report.

We felt that in the 2003 Integrated Energy Policy Report there were some maybe conclusions, recommendations that were developed without our full participation or input. And through working with the Energy Commission Staff, we have really improved on that. And we hope that by 2005 report we have been able to participate fully in the development of this.

I just want to point out the reason why we're interested in participation. Our air basin, the south coast area, is, unfortunately, the worst -- has the worst air quality in the nation. We are still designated as the only area of extreme ozone nonattainment.

At the same time we have eight refining facilities in our area, more than half the refining capacity in the state. And these are typically located in areas such as Wilmington, Carson, near the port area, San Pedro area. And along with that we have dozens of terminals where the different fuel supplies are stored or transported through.

So, we are very interested to assist the Energy Commission Staff in improving the availability of supplies to meet the needs for developing of this policy, Integrated Energy Policy. But at the same time we'd like to also share and identify some of our opportunities that we have experienced in improving the permitting for these facilities.

We have done a number of things throughout the years as the local permitting agency in our rules, through development of exemptions for certain environmentally beneficial projects, such as the clean fuels that the state and the federal government had mandated in production.

We work very closely with the Air

Resources Board in making sure that the permits are issued in a timely manner so that clean fuel mandate deadlines can be met.

We've also worked through the last three years to implement a long list of recommendations that came out of a Board-adopted permit streamlining task force recommendations.

I also serve as the permit streamlining ombudsman, and I have responsibility for, in addition to permitting, enforcement of our agency. I also have responsibility for economic development and business retention.

So we are very sensitive to making sure that the energy supplies are there to meet the demand for the state. But at the same time we also want to make sure that the air quality, public health and environmental justice issues are also evaluated and addressed at the same time.

So we hope to work with your staff in those areas, in particular. We have a long history of working with your staff on the electricity issues, and especially during the 2000/2001 electricity crisis. And we hope to utilize some of our experiences that we have gained with your staff in those areas. And make sure that the same type of assessment that your staff done a very good job, and is also considered in looking at petroleum infrastructure.

And not just look at where the bottlenecks are, or where we can increase supply, but also look at what are the impacts of certain things that are necessary for the state to address.

So with that I'll just stay throughout the workshop and hearing, and if there are any questions, be happy to respond to them.

Thank you.

PRESIDING MEMBER GEESMAN: Mohsen, I want to thank you for your willingness to play such a large role in this process over the course of the next year. This scenario where I don't think we've done as well in the past as I hope to in the future.

I think we've got a very good relationship in coordinating our work with the ARB. But frankly, I think, as you acknowledge, it has not always lived up to that standard as it relates to the Air Districts. And I think that there's a significant role to be played there at better integrating the type of analytic work we do to the types of needs that you face.

I think that the issues confronted by the South Coast District and many of the other districts around the state do, in fact, drive a lot of our energy results. And hopefully can better be incorporated in our energy policies.

We have enjoyed a very good working relationship with the South Coast and other districts when it comes to the siting of electrical power plants. But I don't think we're anywhere close to that yet as we confront the challenges of our petroleum infrastructure.

And while we may not end up in the same place at the end of the process, and this Commission has a very steadfast focus on meeting the fuel needs of a growing population, I do think that we share the environmental values that motivate your District. And that we can certainly benefit from your involvement in this process.

And I ask you the same thing that we've asked both the Public Utilities Commission and the ISO, and that is if there are ways in which we can better structure our analytic process to serve your needs, please make those clear to us. We're committed to trying to provide work that is useful to you; and we certainly value your input in helping us to do that.

MR. NAZEMI: Thank you.

ASSOCIATE MEMBER BOYD: Mohsen, it's good to see you again. And I just want to ditto what Commissioner Geesman said. And I do want to reflect on a very accurate point you made, and Commissioner Geesman has already pointed out the extensive interaction with your District and others on power plant siting.

And you reflected on the relationship between this agency, your own and the Air Board, for decades on subjects like alternative transportation fuels and what-have-you. And we really do need to build on that, and perhaps renew some of that. And frankly, on the subject of alternative fuels, beside worrying about in the very short term, adequate supplies of conventional fuels for the rapidly growing population of California, in accordance with the recommendations of both our last IEPR, Integrated Energy Policy Report, and AB-2076, that the state needs to reduce its dependence on petroleum. It need to venture out into alternative fuels more aggressively again.

I think we need to renew that partnership in that subject area, as well. And I very much appreciate you being here. I'm not sure other air districts are here or not. I would like you to encourage the community of air districts to get more involved in this process.

I think last time around, although we did reach out through the Air Resources Board, I'm not sure, I know we tried to reach out to the air districts. I know everybody's busy, but maybe now people in the air district community see the importance and the extreme linkages between the energy and environment and air quality. And maybe you can encourage some of the other districts to get more actively involved than they were last time around, to the extent that they can.

Because we need the input and experience these folks have had down through the years with some of these issues that they deal with at the local level. And like it or not, we cannot unplug the connection between energy and air quality issues. So you're totally right on that point.

So, thank you for being here.

MR. NAZEMI: Thank you, I'll pass this along to CAPCO, our pollution control officers association, which is a conglomeration of all the local air districts.

DR. TOOKER: Mohsen, I have a question. Am I correct in assuming that in addition to focusing on petroleum infrastructure issues and air quality that you expect that we should be looking at the strategic direction of your attainment plan and implications on electricity supplies?

MR. NAZEMI: I think that's the purpose of my comment, because in looking very briefly at the paper that was put out as part of this hearing, I think those are specific points that are mentioned when it's referring to the electricity supply and infrastructure.

But when it comes to petroleum I felt that there was no recognition of different areas in the state and the specific needs for those areas, such as having the worst air quality, such as having a concentrated set of facilities within a certain area that could be considered as environmental justice area.

And those are the things that you very well deal with in the electricity supply part of it, but it looked like it was not, at least in the first preliminary attempt, was not fully identified on the petroleum side. And I think those are the things that Commissioner Geesman referenced to that.

Our District has to deal with it day in and day out. I will be happy to share some of that with you.

DR. TOOKER: But you would agree that other strategic direction, such as electrification of the ports will have significant effects on demand for electricity in South Coast, and therefore, we should be considering, correct?

MR. NAZEMI: I think that's one of the things that the Mayor of Los Angeles is looking into. And we have, for a long time, have looked at what we call cold ironing, which is electrification.

The port area is the single largest source of emissions in our area. So anything we can do with the ports, anywhere from the marine vessels to the electrification of the port, to the trucks, I think is going to be significant in our attainment plan in achieving the air quality standards. So I agree with you.

DR. TOOKER: Thank you.

MR. NAZEMI: Thank you.

MR. KENNEDY: Do we have any other agency representatives here in the house who would care to say a few words at this point?

Do we have anyone on the phone from agencies who would like to make some general comments as we get started?

Okay. And moving beyond the agencies, any general comments at this point, or should we be moving on into the individual topic areas? Either folks in the house or on the phone? We have someone coming up to the microphone.

MR. HUGHES: I'm Evan Hughes; I have a brief three questions related to the general scope. What are some of the other studies going on that you had in mind using, as you do this work, what are some spill-over topics, if any, from the 2003 report?

And related to what I think I just heard, are the ports and the rail corridor as specific topic that you're going to cover?

MR. KENNEDY: Starting with some of the other activities and reports that are going on there's a variety of activity here at the Energy Commission and the PUC on topics like renewable energy, distributed generation, demand response, energy efficiency, where we will be looking very much to try to tap into the ongoing efforts here and in other agencies.

There's similar work on global climate change happening in a variety of places. Again, we're likely to try to tap into a lot of the ongoing work on global climate change and bring that into consideration here.

In terms of -- actually I'm --

MR. HUGHES: No longer from a 2003 --

MR. KENNEDY: In terms of spillover from 2003 there are the 2004 update, which we are coming towards the end of, has taken on three very particular topics. I expect that there actually is a lot.

I don't have a very clear immediate answer for particular topics from 2003, but there are a number of unresolved issues that are still ongoing. A lot of the infrastructure concerns that were identified in 2003 are still issues that need some degree of being addressed, that over the course of the next year there's probably going to be a lot of additional work completed on things like procurement and so forth. But I expect that a number of the topics from 2003 will continue on.

In terms of particular emphasis on rail corridors and that sort of thing, I think it's a bit too early to know how far in that direction we will go. As I said, we expect to do sort of more detailed scoping on particular issues. Part of the point today is for staff and for the Commissioners to hear what the people interested in this proceeding think we should be making a priority.

So I couldn't tell you at the moment how much we will do in that direction, though I suspect we will need to touch on it to some degree.

MR. HECKEROTH: My name's Steve Heckeroth with Energy Conversion Devices. I've been attending these kinds of workshops for almost 30 years, going back to the '70s when in the late '70s we talked about passive solar design for many years. And we didn't seem to come to a resolution. And I think we have to learn from those long processes and use them, revive them again.

And I also attended workshops where these documents were created, Energy Aware and

Using Energy as a Yardstick for Development. And they need to be brought back. We've already done a lot of the work that needs to be done. We just have to review it and use it, and put it in place in some kind of policy.

And that's what I wanted to start with, was what we've already done, and not re-do it, not reinvent it.

MR. KENNEDY: Thank you. Any other general comments? Anyone on the phone who would like to, before we get into the particular topic areas, like to chime in?

MR. FLANAGAN: This is Dan Flanagan. Was that rail corridors that was mentioned?

MR. KENNEDY: Yeah, it was.

MR. FLANAGAN: Okay, well, I would just add, for general information, you know, the Congress is considering SAFE-T, which is the renewal every six years of the highway bill. And the staffs are working, the House and the Senate conferees have been meeting. And so a lot of what might happen as far as expediting any sort of solution to the Alameda east corridors, the crossing and so forth, hinge on the availability of funding, particularly tax credits, which is one issue that's being proposed by SCAG and others.

So I just alert you to the fact that we will know by the end of September whether SAFE-T will be renewed for another six years, and whether we'll have funding to address that particular project.

MR. KENNEDY: Okay, thank you for that comment. The court reporter reminded me that particularly for folks on the phone, when you identify yourself if you could give your affiliation and spell your name, as well, that will be helpful for the court reporter.

MR. FLANAGAN: Sure. It's Dan Flanagan, K&D Aqueduct Advisors, but also Cal, Irvine.

MR. KENNEDY: And could you spell your last name?

MR. FLANAGAN: F-l-a-n-a-g-a-n.

MR. KENNEDY: Thank you. Any other general comment?

MS. TURNBULL: I'm Jane Turnbull and I'm here today on behalf of the League of Women Voters of California.

Kevin, thank you for your comments about putting everything in one place to make it simpler. We have fairly extensive comments, and I think I'd like to go through them right at the beginning rather than pop up again and again.

Commissioner Geesman, Commissioner Boyd, I'm very pleased to be here today to represent the League of Women Voters of California as the Commission takes up the 2005 Integrated Energy Policy Report.

The work this Commission has done in terms of integrated planning over the past months has already begun to have positive influences on the energy policy in our state. We applaud this process of public workshops which has shifted the style of deliberations from presentations of defined positions of the various parties to open discussion of the issues; from recitations of set positions by the usual players to thoughtful consideration of the challenges that the Commission must address.

Now I'd like to speak to the specific questions that we're asked to focus on today. The first was which issues should have the highest priority.

Many issues deserve critical issue ranking, but I think the order that staff has set out in the key issues report is a very reasonable approach. Looking at transportation, fuel supply, demand and infrastructure, an update of reducing California's petroleum independence probably is not the best place to start.

Our national League supports energy goals and policies that acknowledge the United States as a responsible member of a world community. I feel that this position encompasses our state, as well as our nation.

As Commissioner Boyd mentioned, California is a nation-state. We cannot simply focus on petroleum infrastructure and the demands within our state, but must acknowledge that California is the sixth largest nation-state economy in the world. Fossil fuels, and particularly petroleum, have become life blood of our state economy.

Thus it is desirable that California look to the many and complex implications of international petroleum demands and supplies. Licensing new refineries in California is a relatively easy option and a very limited one.

More important and far harder to handle will be addressing the impacts that will occur when petroleum demand curve exceeds the supply curve. Developing alternatives to gasoline has already proven to be a thorny challenge. This is probably an endeavor that the Energy Commission should not embark upon in isolation.

Both the International Energy Agency and the Energy Information Administration are already addressing these concerns. And New York State, through NYSERDA, which historically has faced numerous oil shock crises, might also offer a useful perspective.

Statewide vehicle mileage standards might be a good start, along with support for research on gasoline additives. But these two approaches clearly cannot solve the fundamental problem the economies of California and other industrialized nations will face. The beginning of the petroleum era.

In terms of electricity and natural gas supply, demand and infrastructure, Californians have done a splendid job of controlling per-capita demands for electricity. But the population growth that we know is coming means that demand management programs alone will not be enough. We will need to address both the supply and demand side of the resource equations.

We applaud the positions of the Energy Commission, the CPUC and the Power Authority, as well as the Legislature, in accelerating the renewables portfolio requirement. This is truly precedent setting. But realizing the subjective will not come without associated challenges.

Transmission needs loom large if we're going to realize the goal of 20 percent renewable energy. Because renewable energy resources are largely geographically defined, a renewable energy certificate trading program holds a lot of promise. However, given the uncertainties and the potential for problems that such a system will face, it would be wise to start with one or more pilot trials to clarify the benefits, as well as the potential pitfalls.

The League of Women Voters concurs with the loading order established in the energy action plan. We also recognize that there are likely to be pressures for additional capacity that cannot be met in the near term by either demand side management or renewable energy. And we recognize the increasing pressures on natural gas supplies statewide.

We hope that a strategic process for

retrofitting older, natural gas-fired power plants will have both economic and environmental benefits. As well as relieve some of the pressures on the natural gas supply.

The reliability-must run contracts associated with many of these older plants present real problems. But the need to improve the overall efficiency of the electric system is vital. Development of a strategy for either repowering or retiring these inefficient facilities must be integrally tied to transmission improvements.

The League also acknowledges the critical problem of maintaining and strengthening the statewide power grid. We recognize the allure of distributed generation that would reduce dependence on the transmission system. But we also recognize that small-scale generation that is both economically and environmentally acceptable is not yet generally available.

We certainly endorse efforts to make rooftop solar attractive to the general population. But when we're looking at subsidies we have to look at the whole situation in terms of the state budget, and the extent to which energy has to take its place along with education and social services.

We certainly can support a performance-based rate structure, one that encompasses the full spectrum of benefits of photovoltaics and other types of distributed generation.

The League's energy committee has been making efforts for more than a year to impress on our members the real costs of peaking power. And we find there's a growing interest in real-time rate structures. We believe that the general adoption of real-time rates will foster adoption of continued improvements in energy efficiency.

At present the State League of Women Voters is asking local leagues to address the broad subject of regulation of the electric industry. One question being asked of local leagues is whether all energy providers in the state should meet the same resource adequacy requirements. I expect there will be an endorsement of the position that all parties should play by the same rules. Standards for renewable energy, demand side management priorities, and participation in statewide integrated planning should be an obligation of all power providers.

It is certainly important to increase environmental benefits through the establishment of a loading order of resources. The League is enthusiastic about the Commission's emphasis on regional land use planning and corridor development.

Public participation in this process will help citizens understand the challenges and tradeoffs that are required if reliable, reasonably priced energy is to be available in the decades ahead.

Visionary long-range planning can do a great deal to minimize environmental impacts. And I want to stress that it is important that this planning not treat California as an island. We have neighbors to the north, the east and the south that we need to consider, and with whom we need to collaborate.

Global climate change is happening. Our diminished snow pack and higher temperatures are facts that all parties at every level of government must address. A great many corporations are already seeking ways to mitigate greenhouse gas emissions, despite our federal government's failure to agree to the Kyoto Accord.

Most European nations are beginning to trade carbon credits, thus creating an additional value for energy efficiency and renewable energy technologies.

I don't believe in California we're ready for trading at this time. But it might be possible to develop a system of tax credits to educate and motivate the public; and provide an incentive for reducing greenhouse gas emissions.

In terms of water supply and energy interactions, that is a specific consideration growing out of global climate change and the increased population pressures in our state. More frequent droughts and earlier melting of the snow pack are reducing our hydropower potential and forcing greater dependence on other energy resources.

And we have been told that about a half dozen of local water agencies are drawing up plans for desalination plants. Desalination is not a new technology. However, it is an improved technology, and even its requirement for energy has been reduced significantly over the past decade.

Nevertheless, it will be important to understand the potential for environmental damage of large facilities, especially in light of the Coastal Commission's legitimate concerns about marine ecosystems.

It appears that desalination will become a fact of life for Californians in the decade ahead. Hopefully planning for these facilities will be addressed in the regional land use planning process that should be instituted for energy facilities.

Thank you for including the League of Women Voters in this hearing. We look forward to working with you on these challenging issues.

PRESIDING MEMBER GEESMAN: Jane, thank you once again for very thoughtful comments. You've touched on, I suspect, six or eight different ongoing proceedings that we have underway. I'm hopeful that we can indulge ourselves and rely on your participation in as many of those as physically possible. Some of them will have outcomes, I think, in the next four to six months. And I'm specifically speaking of the solar incentives area and the demand response area.

I want to expand on your comments as to the linkage between electricity and water, and echo some of the input received by Commissioner Boyd's and my predecessor, Dave Rohry, on this Commission. And that is that in addition to desalination, it would appear that our future water needs are likely to involve increased treatment requirements and increased pumping requirements.

And I'm not convinced that in any of those three areas we have fully captured the feedback loop as it relates to our electricity system. So I'm hopeful that we can make some progress in this IEPR cycle in better understanding those issues.

MS. TURNBULL: We concur completely on that. In fact, we're in the process right now of developing comments for next Monday's workshop. And really do want to explore this issue of water and --

PRESIDING MEMBER GEESMAN: Good.

MS. TURNBULL: -- energy linkage.

PRESIDING MEMBER GEESMAN: On the transportation fuels question, let me add to the several references that you made, the AB-2076 report that this Commission and the ARB adopted about a year ago related to reducing California's dependence on petroleum fuels.

That report formed the basis of the recommendations made in the 2003 IEPR. And while I think some of the specific assumptions are certainly worthy of careful review, as we go through the next cycle, and careful updating, I think the framework is one that traditionally t he Commission is likely to follow.

And that is a three-prong approach, which seems to antagonize a little bit of excitement from everybody. One is to maximize our reliance on efficiency improvements. The 2076 report, as I recollect, called for a change in CAFE standards, I believe, by 2010, to a 40-mile-per-gallon fleet average, which we were informed was both technically and economically achievable.

It called for a reliance on alternative fuels in the transportation sector of 20 percent by the year 2020. And without picking specific winners in that process, the report did identify a handful of different fuel sources that this Commission and the ARB both felt worthy of expanded pursuit. And then finally, an addressing of our infrastructure needs.

And the conclusion that we came to was that despite that aggressive approach to both efficiency improvements, which are beyond the state's ability to accomplish. We need the cooperation of the federal government to achieve those. And the very greatly enhanced reliance on alternative fuels, inexorably over the course of the next decade our reliance on petroleum caused, in no small part, by a growing population would continue to expand.

And our petroleum system would rely increasingly on product imports, which our infrastructure is currently ill-suited to accommodate.

So I think we've been able to antagonize the automobile manufacturers with our CAFE recommendations. We've antagonized the petroleum industry with our alternative fuel recommendations. And we've antagonized environmentalists, environmental justice advocates and some regulatory agencies with our observations about the suitability of today's permitting process to meet the challenges of the future.

I expect that at the end of this process each of those sectors will probably be comparably antagonized. But I think our role is to try to serve as an honest broker of information. And to invite the League and other parties to fully participate in that analytic process.

I don't envision this being a satisfactory resolution of these very difficult challenges in the transportation sector. But I do think that we can advance the process quite a bit in this next cycle.

MS. TURNBULL: Yes, there are no silver bullets, that's for sure.

ASSOCIATE MEMBER BOYD: If I might, an additional comment. Commissioner Geesman has eloquently captured most of your points. The one I wanted to thank you for referencing and just indicate that activity is going on is the climate change comments.

The difficulty that I'm finding with Integrated Energy Policy Reports, themselves, is they're not intended to be reports that tell the public all that's going on in particular areas. These many workshops and committee hearings and what-have-you, are the closest thing we've come to a public discussion of the many many activities.

But as you've seen by your regular attendance, the attendance is limited. It certainly doesn't go a long way to reaching the California public.

There is a lot going on in the alternative fuels area; there is a lot going on in the climate change area. And we hope somehow to capture that in dialogue and reports that the public will see more of.

The current Governor has strongly embraced reducing our dependence on petroleum, alternative fuels and climate change. In fact, I'm going to have to leave this meeting about 1:00 for a short period of time to meet with two Agency Secretaries on the subject of climate change and doing additional work.

A lot of that just doesn't get reported in various forms. And we need to give a lot more notoriety to that.

But the fact that the Integrated Energy Policy Report process, as I said earlier, does provide an almost continuous dialogue on all kinds of energy issues has at least allowed us to talk to the limited audiences we're able to capture about the fact that this process is focusing attention on all the issues that you pointed out to us. And there are far more activities.

And let's just say the environment is getting better and better in the state to facilitate addressing many of these much more aggressively than before. And to do it in a systematic and coordinated way, perhaps better than it's been done before, because as we've seen time and time again, everything is connected. There's an interaction between everything. If you take an action in one area there's results somewhere else, sometimes positive, sometimes negative.

And I think part of this process is to see that things are coordinated and all the consequences are identified as much as possible.

So, here, here to the efforts of your organization who helped us immensely through the 2003 process. And I'm glad to see you here again dogging us with your good ideas.

Thank you.

MS. TURNBULL: Thank you for having us.

MR. KENNEDY: Is there anyone else on the phone or in the audience who has any general comments before we move on to the particular topics?

MR. KELLY: Commissioners, I have some general comments, and then would like to go specific, if I could.

Good afternoon, Commissioners. Steven Kelly with the Independent Energy Producers Association.

ASSOCIATE MEMBER BOYD: Steven, it's still morning, so --

MR. KELLY: Oh, good morning. It feels -- I just got back from a long trip, so it feels afternoon.

First, I wanted to speak in general because I think my comments at the general level do apply to many of the various sectors that you've raised and staff has raised for public comment. And then go to some more specific examples in the electricity sector, which I'm much more familiar with, if I could try to tie it all together.

But I was struck by the comment that Commissioner Geesman made about the importance of looking 15 months out, or when this report is done. And providing the information to policymakers and particularly the Governor, it would be helpful at that time.

Because when I actually first read the outline of the staff draft I thought, whoa, this is really broad, a lot of stuff here, all very important. And tried to grapple with what I would say to the Commission in terms of recommendations about how to proceed.

But to do that I actually started thinking about what are likely to be the issues 15 months from now. And I grappled with this for a number of hours and actually came up to the conclusion that I thought the problems in 15 months are likely to be exactly the same problems we face today. Because I don't see a mechanism to fix some of the problems.

So, when I look at what the Governor and policymakers will likely be thinking about in 15 months, I actually think that they'll be asking specifically for is the infrastructure or is the system more reliable to serve consumers' needs. Are the public policies that we've already articulated to the Legislature and the Governor being met. And if not, why.

And I think ultimately that question is going to lead you to the Governor, to the query, which will be why isn't anything being built. And that is the focus of kind of the way I framed how I approached my comments in the presentation here today.

The study lays out basically two aspects. One, the Commission, which it does very very well, is to study essentially demographic population trends. And that is critical, obviously, to understanding what's going on in California. Nobody does that better, I think, at least right now at least in a public forum.

The other thing that the study tries to do or addresses is to identify the issues and hopefully foster solutions to issues that are out there.

What I would recommend in regards to number one, which is the studying of the demographics and the population trends and what's happening around the world and so forth, as I indicated this Commission does that better than no other agency in the state right now. And you do it in a much more open and transparent manner than is currently being conducted by any other agency as far as I know.

You are actually the only forum that I

feel is available for an open, transparent discussion of these issues. And I urge you to continue that process to make sure that stakeholders understand what's going on in terms of the trends in California.

And that requires, obviously, bringing in a bunch of information that is not presently available. We have been long advocates, IEP, for open, transparent access to planning data so that we can participate in the process for evaluating an debating what the trends are. In the absence of that transparency I think it's very hard to get the breadth of the information that you seek.

Regarding the second piece of what the study's purporting to do, which is to identify issues, I actually think that it might be helpful for the staff, the Commission, the Committee to really spend the first four months of this study process identifying the key impediments to infrastructure development. And focus specifically on those things, identification of those issues.

And then focus the next four months of your process on identifying solutions to those four or five per sector that are problems for infrastructure development and why. Because I think what's happening is, as has happened traditionally, is that the study work gets so broad, the policy issues get spread so thin that we're not really able to grapple onto and tackle the four or five key issues that are impeding development of whatever it is. If it's alternative vehicles, alternative transportation fuels, new transmission, electricity generation, renewables or whatever.

My experience over the last couple of years is in spite of very strong public policy to move forward very little is happening. And I think there's some obstacles to moving forward that need to be removed before, or else we're going to end up in 15 months with the Governor and others asking what have we done. How do we improve reliability of the system and so forth.

And in terms of that, in that structure I'd like to just address it to bring it down to the energy infrastructure issue. This agency is being a strong advocate of addressing transmission siting and we applaud you in that.

Transmission infrastructure development, however, is solely inadequate right now. In addition to the planning. And what we need is a mechanism to insure the reliability of the transmission systems to meet public policy goals.

For example, the RPS. Right now, as a practical matter, most of the transmission is built by the investor-owned utilities or the munis. And in the case of the investor-owned utilities, that requires an application to the PUC and we go through a process. And first and foremost, nothing happens until the applications are made.

I think we need to look at alternatives to that. For example, when there were constraints on the management of the transmission system, the operation of the system, the state moved to an independent system operator. I would offer up now that we should start considering the role of an independent system developer to build needed transmission to insure system reliability and the attainment of state policy goals, such as the RPS.

I don't think this entity should be building transmission to meet the competitive business interests of developers, but there are policy goals out there and there are reliability needs out there that seem to be going unaddressed right now in the transmission forum.

And perhaps an alternative to building transmission would be a mechanism to do that. May be funded through bond issuances offered by the state, Power Authority, infrastructure bank, or whatever. But it's something, I think, that we need to start exploring.

Secondly, I think it would be helpful for this Commission to look at standards for open, transparent, competitive procurement. The Governor has stated a number of times, as a matter of policy, his direction is to move to an open, transparent, competitive process for the procurement of energy.

I've heard repeatedly calls for examples of what that is. And I think it would be very helpful if this agency would step up and address what would be a model mechanism to develop a procurement style to insure that consumers are getting the best deal to meet their needs.

Similarly, it would be helpful to have standards for an open, transparent planning process. I think this agency has done a very good job in that. As Commissioner Geesman earlier articulated the Commission's policy on that. I've been involved with developing some of those regulations. And I'm very comfortable with them.

It would be helpful to have post standards, probably more publicly well known, so that they could become a model for some of the other agencies to follow.

Because what's happening now is there is a dearth of information from a planning perspective that limits the number of parties that can actively, beneficially and effectively participate and answer your questions about what's going to happen over the long haul in terms of the energy infrastructure or transportation infrastructure in California.

And finally, along the same lines, I think this agency would be good to start looking at what are the mechanisms to help incent the greatest participation and competition in developing and building out this infrastructure.

IEP has been a strong advocate of competition. We continue to believe and have always believed that properly conducted it will realize the greatest value to most consumers. We don't have a model that's out there that would guide agencies in that, as far as I can see, at this point in time that's being implemented.

Now, regarding the staff priorities, I'd like to take what I've just described and speak to some of the staff priorities that were laid out in the energy section of the report.

One of the issues they talked about was rather than focusing on the simple process for an opportunities and progress and how we're doing, as I'd indicated I think we ought to look at what are the impediments and try to tackle what those are, and tick them off.

Regarding tackling intermittency, integration of renewables, I don't think that's as important as figuring out what the barriers are to building renewables. Because if nobody builds it there isn't going to be an intermittency and integration problem.

Regarding electricity supply, demand and infrastructure, again knowing all the trends in that are important, but it's this agency that has taken the lead role in moving on improvements to transmission planning, we need also to look at how to break down the barriers for building necessary transmission. Not just focus on how to plan for it.

And, again, I'm talking about transmission that has been identify by this agency, the Public Utilities Commission, the Independent System Operator as being needed to insure reliability to consumers, as being needed to insure compliance or attainment of state policy goals, like the RPS.

Right now I think there are barriers there, even after the planning is done, that will hinder attainment of those goals.

So those are my comments and I welcome any questions throughout the day. I should be here for most of it.

PRESIDING MEMBER GEESMAN: Two questions, Steve, and I want to thank you for your remarks.

One, on the procurement issue, it seems to me that we'll all know a lot more after the Public Utilities Commission adopts its long-term procurement decision in December. Shouldn't we wait until we see what that is?

I'd emphasize, our staff is collaborating with the Public Utilities Commission Staff in that process. So, to some extent, we're going to end up having an ownership share in whatever the outcome of that process is. Shouldn't we wait until the decision is actually adopted before determining whether it needs improvement or not?

MR. KELLY: No, I don't think so. I think we can start looking at the process as it's being implemented to identify issues. I think the Commission, under the guidance of Commissioner Peevey, is doing a good job of accelerating the process for planning.

Most of the information in that proceeding is redacted from certainly my review, so I can't participate from my perspective in that process very well.

The other problem that is going to have to be addressed, and I understand that there's a number of people now concerned about looking at what is going to be the reliability of the system in 2005, '6 and '7. That procurement decision, under the current schedule, is due to be out by the end of this year in December. It wouldn't be surprising if that is delayed 30 days or so, so you're talking January.

If the utilities actually had to go out and do a procurement following that, those procurements wouldn't occur probably, at best, within 90 days. You're not going to see contracts, if they do contracts, or utility-built generation, being authorized until late summer, fall.

If there's truly a problem for 2005, 2006, then that procurement may not be timed properly to build out any necessary infrastructure.

And right now the information in that procurement proceeding is so redacted that it's hard to tell what is the basis for the planning that the utilities are participating in. So that's one key problem right now.

PRESIDING MEMBER GEESMAN: Second question had to do with your comments about transmission. Now, in the '03 IEPR we focused on permitting constraints. And made some fairly outspoken recommendations as to the appropriate way to proceed there.

I'm happy to see that to some extent those recommendations are echoed by the California performance review. In the '04 update we focused on the planning process. And, you know, we'll have a workshop on that in the next couple of weeks. Staff's put out what I think is a pretty impressive report and conducted a number of informational workshops to date.

You seem to indicate that there's a third area which, you know, for lack of a better phrase I'll call willingness to build. I've not heard for awhile many people speak on behalf of the Power Authority in Sacramento, but I wonder if you would elaborate on that.

MR. KELLY: I'm there.

PRESIDING MEMBER GEESMAN: There's a countervailing view that the utilities have adequate incentive to move forward; that they have had a problem with the planning process and some clear problems with the permitting process. But that they don't lack the motivation to move forward with construction projects. Particularly in light of the preferred rate of return that FERC appears willing to offer improvement to the bulk transmission system.

Would you elaborate on what your concerns are?

MR. KELLY: Yeah, I would have thought the same, that I would have thought after AB-1890 and so forth, that the utilities would have jumped into transmission construction, because that was a moneymaker place, and it was needed.

But I'm not seeing evidence of that. And I'm not convinced that they actually have the incentive --

PRESIDING MEMBER GEESMAN: Well, they've been broke up until recently, so --

MR. KELLY: Well, but I'm not sure they have the --

PRESIDING MEMBER GEESMAN: -- I'd start the clock a little more lately.

MR. KELLY: -- incentive. I mean, you're basically hooking up generation probably owned by somebody else who's a competitor to you now. And the hybrid market structure, utilities are back in the generation business.

So every megawatt that they hook up that is owned by somebody else is potentially a megawatt that they could have hooked up that was under their ownership. So I think the incentives have shifted recently because of the hybrid market structure.

I'm looking at the slow, slow progress in the Tehachapi transmission development. And over some of the recent meetings about how that obviously, under the present structure is going to be delayed.

Now, I recognize a key problem that in the RPS buildout, the argument is we're not going to be able to build transmission until we know that the resource there has won the auctions. Well, in this particular case, Tehachapi, the lead utility that would build out that is Southern California Edison, who is not conducting any auctions right now for RPS. So they won't see that signal, and therefore do not have the incentive to build it out.

PRESIDING MEMBER GEESMAN: The PUC has tried to get in front of that by directing Edison to file a CPCN.

MR. KELLY: But there's still a fundamental issue because I think it's true, under the regulations, if not under the law, that the PUC can only act on CPCN applications. And an application can only be filed by the utility.

They still control the scope, scale and pace, more importantly the pace, of the development phase. There's no mechanism to break through that unless the PUC, which they've never been historically as far as I know, is willing to step up and impose some sort of penalty for not accelerating the pace.

I think in this particular case one of the things that might help incent the utilities is if they viewed that there was a viable alternative to building up a line to meet the two narrow purposes that I'm talking about, which is system reliability and public policy, in this case RPS, attainment. And have some alternative entity positioned to build that out if the proper authorities determine it's a necessary construction that's being delayed unnecessarily.

PRESIDING MEMBER GEESMAN: Well, thank you for your comments.

MR. KELLY: Sure.

MR. KENNEDY: A few housekeeping details while we have a break between speakers. We're getting a certain amount of background noise off the conference call, so I would encourage folks who are listening on speakerphone or otherwise to, you know, use the mute button, or be careful. We're hearing a lot of what seems to be wind or breathing or something. So that's coming across and occasionally getting a bit distracting.

I also want to remind folks who are

listening on the webcast about the call-in number if you want to make comments. That's 877-917-1557, with the passcode of "Kennedy Call".

And for the folks here in the room, I understand the folks on the webcast are, at least at times, having some difficulty hearing. I'm not quite sure if that's just a question of we're not getting picked up by the microphone enough, but I would encourage folks to stay pretty close to the microphone.

We're not having any trouble hearing inside the room, but apparently it's not always getting out to the webcast folks. So the microphones are sometimes a bit sensitive. So if you can speak close when you get to the microphone that would be good.

Do we have any other general comments, either from the phone or from the room?

I think perhaps we can move on to the first of the specific topics, which is transportation fuels. Anyone care to speak on transportation fuels?

And I suspect we have someone on the phone who may want to start off on this?

MS. GREY: Yes, Kevin, it's Gina Grey

with WSPA.

MR. KENNEDY: Why don't you go ahead. Actually if you can start by spelling your name for the court reporter.

MS. GREY: I certainly will. My first name is Gina, G-i-n-a; last is Grey, G-r-e-y. And I'm representing the Western States Petroleum Association.

Thank you, and good morning, Commissioner Geesman, Commissioner Boyd, Advisers and Staff. Again, my name is Gina Grey; I'm representing WSPA today. Unfortunately, our President, Joe Sporano could not be here this morning. I know he would have liked to have joined you. But WSPA does have some initial comments we'd like to provide the Commission on this transportation fuel section scoping document.

We did participate with great interest in the 2003 through 2004 IEPR process. And we're looking forward to continuing with the '05 update. We appreciate the Commission's view that the IEPR is an evolving document, open to revisiting issues that impact the state's energy needs.

The Commission's background documents indicate you will be starting a process of requesting data and analyses from various parties this fall, and our organization will be happy to assist you in defining plans that will insure the state is successful in achieving improved energy efficiency and continued economic growth.

After reviewing the staff proposal it appears that all of the same topics and issues that were addressed last year will be addressed in the 2005 report. In addition, we note that there were two new topics that are scheduled for review.

One is the near-term responses to constrained petroleum fuel supplies. The second being global climate change considerations. There is also special mention of a petroleum infrastructure environmental performance report.

I'd like now to provide you with WSPA's specific comments about the staff proposal. First of all, WSPA strongly supports the expansion of a balanced energy base, one that is reliable, cost effective, a product of sound science, investment friendly, and supportive of further environmental improvements.

Increasing the supply of existing clean transportation products while developing clean-burning alternative fuel and other energy sources to meet growing demands will solidify this balanced energy base.

So in that case when Commissioner Geesman was talking about the fact the petroleum industry was actually one of the antagonized industries over the alternative fuels piece, I'd just like to indicate that we are stating that we do believe that clean-burning alternative fuels have a place in this overall energy scenario.

We also embrace the Commission's support for continued streamlining of the state's permitting process. This should help remove barriers and disincentives for supplying more energy to California markets. Permit streamlining should allow upgrading and expanding of the instate energy supply infrastructure, particularly in the areas of petroleum and petroleum products, electricity and cogeneration investments, and in the expansion of natural gas and LNG use.

But not surprisingly WSPA still disagrees with the 2003 IEPR recommendation that the state set a goal of reducing gasoline and diesel fuel demand by 15 percent from 2003 actual levels by 2020.

Our companies still believe this goal

contradicts another key Commission goal, which is to promote investment that will result in upgrades in instate infrastructure to insure a sufficient energy supply.

We also believe the 15 percent demand reduction goal works against a stated goal of the new Administration; that is to stimulate California's economic growth by encouraging investments that stabilize and expand energy supply.

Energy companies may want to continue investing in economically viable projects that provide Californians the fuel they need. But the Energy Commission's demand reduction policy will almost certainly discourage additional production of clean fuels resulting in less, not more, supply to support population and economic growth.

We wonder why any company would invest to create more product supply if the demand for those products is going to be reduced by state mandate. That just does not seem to make sense.

We believe this contradiction needs to be removed from the IEPR. With the hope that after staff conducts their new studies of fuel supply and demand issues and expectations for the next two decades, and examines the ability of the state to achieve a mandated 15 percent demand reduction without federal action on vehicle fuel economy, that there is a return to a viable petroleum supply/demand proposal.

The only other comment WSPA has today relates to the 2003 IEPR goal of expanded use of nonpetroleum fuels, which is an integral part of the Commission's overall petroleum reduction goal. We note the staff proposal document contains a recommendation for a petroleum infrastructure environmental performance report, or what appears to be an environmental report card for our industry.

There's a similar report being proposed for the electric generation industry. While our industry will certainly cooperate with the review of this nature, we recommend the same report card and the same list of key questions listed in the proposal also be studied with respect to nonpetroleum fuels in other portions of the state's manufacturing sector.

The Commission has deemed that the state's energy supply policies must be economic, reliable and environmentally sensitive. We support these criteria for all energy supplies, and do not agree that nonpetroleum fuels are automatically compliant with those policies.

WSPA appreciates this opportunity to provide our initial thoughts on the scoping proposal, and we look forward to working with the Energy Commission in the coming months.

Thank you. And if you have any questions or comments?

PRESIDING MEMBER GEESMAN: Gina, I want to thank you. As it relates to the dichotomy that we experienced in the '03 process, and which I suspect will continue through this process, as well, and that is the extent to which our demand reduction goals send a conflicting signal to your industry about new investment.

I guess I'd like to frame it and ask that your companies mull this over and provide us with additional information in the future. At one of our workshops earlier this spring I asked what typical return on investment criteria were applied, or what hurdle rates were applied in determining when to move forward with a refinery expansion.

And to no surprise I recognized that for antitrust reasons your companies were reluctant to answer the question. But if you'll recall, one of the consultants to your industry, in that workshop, felt no such constraints and offered up a 15 percent number, which frankly struck me as reasonable based on my experience in the capital markets.

Looking at the demand projections that we made in the '03 process and in the AB-2076 report, again which were premised on an expansion of or an improvement of the CAFE standards to 40 miles a gallon by, I believe, 2010, might have been an earlier year than that, but in any event, I'm not aware of anybody else in the United States at this point talking as if that's likely to happen.

Those demand projections, never the less, contemplated a steady increase in demand over the next ten years. And it would strike me that that's more than enough time to achieve a 15 percent return on investment for any refinery improvements. Those refinery improvements would have long since been fully amortized within that window of time when demand would still be going up.

So my question for your industry is, and I'd like you to bring back some response for us in some future proceeding. I'm not expecting you to respond now. But my question is what's wrong with that picture. Why isn't there still a bona fide rationale for increased investment despite what some would call pie-in-the-sky assumptions on our part about the potential to reduce petroleum demand?

I look forward to your response in the months ahead.

MS. GREY: All right, and that's a fair enough question and unfortunately it appears that our industry has not been at the table enough to sort of discuss those issues with you to assist both you and perhaps Commissioner Boyd with understanding where we're coming from on that.

ASSOCIATE MEMBER BOYD: Ms. Grey, I'd like to -- this is Commissioner Boyd -- I'd like to elaborate on what Commissioner Geesman just said, and also respond to something you said about the environmental performance report. I'll start with that first.

And I'd like to ask the person out there who is shuffling papers, moving their desk or something, to take care. We're getting terrible feedback here.

In any event, the environmental performance report is something the Commission has done, in the electricity area, and I think in the IEPR last time around, recognized since we now talk about all three legs of the energy stool, and we should treat them all equitably.

And I think your point about bringing in any forms of transportation fuel is a fair point. We need cradle-to-grave economic analyses; we need the same with regard to environmental effects.

Getting back to the issue that Commissioner Geesman brought up and the incentive for investment, in a sense it is so difficult to get information and to have knowledge. We have to rely on what we read in the financial pages of the newspaper. And all I can be guided by is recent revelations that so much money has been made by some California refiners that they've been able to accelerate debt repayment retirement, at least one of them, to the point they can even invest now in east coast refining capacity.

So, it is hard to reconcile the idea that there's not incentive for investment in the

California market, notwithstanding the fact that there is a need to come up with alternatives because the future demand has seemingly outstripped anyone's ability to come up with adequate supply.

So I'm just echoing the request of Commissioner Geesman to understand better the financial intricacies and intrigues of the transportation fuel business.

MS. GREY: All right, and I appreciate that. I'll certainly take it back. I think again, though, the difficulty that our industry has probably been having over the last couple of years is the Legislature's intent, which we read to be a reduction in demand -- I don't think our industry is saying no reduction in demand and let's just go wholesale into the future with total petroleum. As I indicated, alternative fuels, in our minds, our companies are investing in that fairly heavily at this point, as well. So it's part of the picture in our minds.

But, a subtle but very important difference between a reduction in that future demand growth versus taking it to a 15 percent below what the 2003 demand point was, and I think that's where probably a lot of the difficulty from our industry is coming from.

So I think we look forward to probably discussing this with you further.

ASSOCIATE MEMBER BOYD: Appreciate that, it certainly brought you to the table.

(Laughter.)

MS. GREY: Thank you.

MR. KENNEDY: Do we have anyone else who is interested in commenting on transportation? We have someone coming up to the microphone.

MR. EAVES: Good morning, Commissioners. My name is Michael Eaves, E-a-v-e-s. I'm the President of the California Natural Gas Vehicle Coalition.

You know, we supported the work that was done on the AB-2076 report and the recommendations of the 15 percent reduction in petroleum in IEPR 2003 IEPR. And we all recognize the issues that we're trying to codify that goal and the state law through the AB-1468.

The CEC has always been a mainstay in addressing transportation issues in California as far as I can remember. CEC has always been critical in helping to change the status quo.

And in the past, you know, your aggressive R&D programs, demonstration programs and technology deployment has made an impact on various industries, you know, getting into the market. But as, Commissioner Boyd, you expressed yesterday at the hydrogen conference in Palm Springs, our record is rather abysmal on alternative fuels, with less than 3 percent penetration over the more than 20 years that I've been involved in this game.

It obviously speaks to the fact that if we're to reach the 20 percent penetration of alternative fuels in the marketplace there's obviously got to be a change in how we go about and do that.

I would maintain that regardless of the legislative processes trying to codify those goals into state law, the CEC will still have to be aggressively engaged in assisting the market transformation for alternative fuels.

And while the spotlight right now is really on hydrogen and the hydrogen highway initiative, the CEC, I think, has a role to stay engaged in all the competitive alternative fuels that are out there in trying to make sure that each one of those is properly analyzed and has a place in the California economy.

Obviously the 3 percent penetration in 20 years is a poor record. It's a poor record for industries like myself in the natural gas vehicle industry; it's a poor record for the State of California, especially given the challenges we have in the future.

Our industry is working to try to find some new initiatives and everything that go beyond where we've been in the past. I don't think that business as usual, just replicating programs from the '80s or the '90s into the next decade really makes that 20 percent alternative fuel goal a possibility.

So we're looking forward to working with staff, coming up with some other initiatives input, you know, over the next few months. And we will look forward to being involved in that process. But, you know, we hope that the CEC stays actively engaged.

Thank you.

PRESIDING MEMBER GEESMAN: I think that this is an area, in particular, natural gas vehicles, that the state has done a pretty poor job of historically. And one which I would hope we could do a great deal more in.

But having said that, and please correct me if I'm wrong, is it General Motors that has recently retrenched quite a bit in terms of its commitment to this technology?

MR. EAVES: Well, starting at the beginning of this year Ford has totally eliminated their NGV programs, and General Motors announced two weeks ago that it was abandoning their vans. They're still maintaining their Ford pickup.

But to your point, back in the days of the methanol programs in the '80s and everything, the Commission would have been one of the first, you know, people going back to Detroit, you know, to talk with those folks about staying in the game and staying the course.

The NGV market in California is, too. We've got heavy duty, we've got a very aggressive heavy duty program. We've got light duty programs in high fuel use fleet vehicles.

People like the OEMs, the Chryslers, the GMs, the Fords are critical in complementing the whole transformation of moving to alternative fuels.

PRESIDING MEMBER GEESMAN: I certainly invite your continued participation. And I'd encourage you to make some pretty aggressive recommendations. I tend to think of the natural gas area as a very logical bridge to a hydrogen fueled future.

So every time I hear about the hydrogen highway I think in terms of the natural gas onramp. And I'd invite involvement of your industry in trying to push us to do quite a bit more.

MR. EAVES: Well, I appreciate those comments and we are actively engaged, our industry is actively engaged in the hydrogen highway. And I co-chair the economy team as part of that process.

Our industry people are looking to just go beyond the words of saying, you know, we are the onramp and the pathway to show specific recommendations of how we fit into that program. And how the two fuels complement one another, hand-in-hand, you know, for the future.

PRESIDING MEMBER GEESMAN: Well, and I also think those of my friends in the environmental community that question the notion of the state's interest in LNG would be well served to assess the air quality situation in southern California, and the contribution which natural gas could make to our transportation system.

MR. EAVES: Certainly.

ASSOCIATE MEMBER BOYD: Mike, appreciate your comments; and you commented already yesterday I did make the point about the track record of the state. It wasn't meant to be a negative in terms we shouldn't keep trying. Lord knows I've scars all over my body from trying to implement every alternative fuel that's ever been put forth in my days at the ARB and our relationship with the CEC was very strong in trying to bear that cross and move the subject.

My point yesterday was to reiterate the need to renew the emphasis. And I take your point well about we should be back in Detroit pushing that subject. And I think perhaps we can. There was a reticence for some strange reason on the part of this organization to make a big deal out of Ford's withdrawal. It bothered me a lot, particularly knowing where we had gone with 2076 and we're going with the IEPR and what-have-you.

And I think the timing couldn't be worse for us in terms of the renewed interest of the state.

But we are such a market I think we can have some impact on the situation. But we've got to create a consumer demand. I mean I appreciate the auto companies sticking with it for so long. You have to make a business case. And the case hasn't been there. And perhaps we can make that case again.

I, personally, happen to think that now that we've gotten over the initial scare about natural gas availability and its heavy use in the electricity generation area, since transportation, as I like to say, and said yesterday, is but the -- you know, the transportation using natural gas about the size of a pimple on the backside of the overall elephant, we're not going to bleed the system dry. We do need that diversification. And I think we need to work on it.

And Commissioner Geesman's exactly right, and he's parroting a lot of what was heard yesterday by many speakers at that very enthusiastic and uplifting conference on hydrogen, was the recognition that natural gas and hydrogen do move very closely together. And there should be some synergisms between the efforts in both arenas. And a lot of opportunity to present themselves.

So I think, I hope we're on the threshold of another resurgence of pushing natural gas as a transportation fuel. But we do need you folks to help push real hard.

MR. EAVES: Well, we appreciate your help and we would appreciate any support you could give us in Detroit to try to get the manufacturers re-engaged. There are probably several other options to their current decision that would make sense.

And we think that with the given infrastructure in California that there is an opportunity right now, just as we're pursuing on hydrogen, to pursue a consumer market as well as the heavy duty and the fleet market in California.

So we --

ASSOCIATE MEMBER BOYD: Well, I do note that Honda hasn't given up on natural gas. And I do know that Volvo built bi-fuel vehicles in Sweden. And I do recall in another life we used both Volvo and Japanese auto manufacturers to drive a wedge into Detroit of what you can and can't do in this country. So maybe we have to do that again.

MR. EAVES: Appreciate that, thank you.

MR. VAN BOGART: Good morning; my name is Jon Van Bogart and I am with Clean Fuel, USA. I'm here today representing the Propane Vehicle Council, and appreciate the opportunity to address the Commission on a few points.

Clean Fuel USA, as you know, is a propane refueling network that is being developed throughout the United States. My company, Delta Liquid Energy, we're a Clean Fuel USA partner, and we are developing refueling here in California.

The infrastructure program is 24-hour accessible pumps that are very similar to gasoline pumps. And we think this is a significant development in alternative fuels. Also a recent development with Conoco Phillips, they are partnering with us now on our stations. And we're going to be putting up some stations in southern California. By the end of this year we'll have 14; and next year we're going to be putting up six stations in coalition with Conoco Phillips in the Sacramento area.

Kind of to review where we've been,

where we are and where we're going, not too long ago, just prior to 1999 there was 50,000 propane-powered vehicles operating in the State of California which displaced more than 60 million gallons of gasoline and diesel.

Currently there are about 30- or about 25 million vehicles; they're displacing about 30 million gallons. This recent decline was due to 1995 and 1996 restrictions on up-fits for vehicles.

Since then we've worked with OEM manufacturers to produce factory-direct vehicles that run on propane. And as has been discussed today, the OEM manufacturers are now backing out.

I look at this as an opportunity. Prior we had more vehicles, when we could up-fit vehicles. OEM manufacturers have lost a significant amount of money trying to produce OEM vehicles on the assembly line.

Recently, as has been discussed, General Motors has put forth a program of where they're going to support an aftermarket program for up-fits. We feel this is a great opportunity because OEM manufacturers can make slight changes to vehicles in certain platforms and send them down the assembly line at very little cost, much as they do E85 vehicles.

It's incumbent upon the alternative fuels industry to go after EPAC covered fleets and private fleets to develop the infrastructure, along with the state, to get those vehicles up-fitted and on the street. So I look at that as an opportunity, both for CNG and LPG.

A new up-fit program would significantly help the state's efforts in 2076 and also 1170 to reduce petroleum consumption. And we applaud the efforts of the Energy Commission in recent years. With limited resources you have put up a significant amount of refueling infrastructure projects which are currently displacing fuel, and we feel that this program needs to be continued, in coalition with some federal funding through Clean Cities and other projects.

So we would like to maybe put forth a few action items in that we feel that the working groups that you guys have created, the stakeholder groups, are a significant development. We believe that we need to engage the OEMs in a similar project with the alternative fuels industry and the State of California on developing a program to where they can produce vehicle platforms that are conducive to up-fits. Much like you order a cab and a chassis and you buy the vehicle and you send it to the body manufacturer and they up-fit it into a dump truck, a school bus or taxi cab.

And we feel a program like this is in our best interest and we would encourage the Energy Commission to start a stakeholders group that would bring in the OEMs back to the table in a kind of a gear-up and team-up effort. We think it would be very productive.

I think there are some new opportunities also out there on the federal level. The FAA and EPA have combined a program called Vision 100, or the new vale program, in which they're going to finance 75 to 95 percent of refueling infrastructure for alternative fuels at airports.

This is going to give the State of California, which has several airports that qualify for this program, the opportunity to put additional refueling infrastructure on the ground on more of a clean fuel island type concept where we can upgrade or install existing CNG stations, along with propane, and plumb it for hydrogen for the future.

So there are opportunities out there and I think we need to take advantage of those. And I applaud the Commission's efforts in their infrastructure program and hope that that does continue.

Thank you.

ASSOCIATE MEMBER BOYD: One comment if I might. You brought up one of my favorite topics. I hope you find it as ironic as I do that there are hundreds of thousands of E85 cars running around this country for which the auto manufacturers got CAFE credits and virtually not a drop of alternative fuel ever finds its way into those vehicles, certainly not here in California, for which there are tens of thousands running around.

So that's one of the ironies of the OEM federal government interaction that takes place under CAFE now. But we'll try to address that, as well.

MR. KENNEDY: Do we have additional comment on transportation topics? Anyone else on the phone? Go ahead.

MR. HUGHES: Yes, this is Scott Hughes with the National Biodiesel Board.

MR. KENNEDY: Go ahead.

MR. HUGHES: Sorry that I can't be there in person, but certainly do appreciate an opportunity to be a part of this process.

We've been working with staff on the biodiesel work group and that's going along very well.

I want to kind of echo many of the comments that have been made at present with regard to helping to bring the alternative or nonpetroleum fuels further into the marketplace by working with the folks in Detroit. Our industry is presently doing that and having some good success there. But, you know, some additional push from the state could probably help get them more on board with alternative fuels like biodiesel.

We are also -- one of the things that we'd like to see kind of through this process, and we think it helps bring some of the alternative fuels and even alternative diesel fuels further into the marketplace, is to hopefully take kind of a broader view or a larger scope of how can all of the tools that are available to the state for both, I guess, expanding the existing petroleum pool, as well as tools to help air quality, how can we bring them all together and use them in existing engines as well as with the new technologies coming on.

So, just wanted to quickly say we appreciate being a part of this process and that there are a lot of opportunities out there to help the state meet its transportation fuel needs in the future. And that biodiesel would like to be a part of that.

ASSOCIATE MEMBER BOYD: Thank you for your comments.

MR. KENNEDY: Do we have any additional comments on the transportation fuels topic?

Why don't we go ahead and move on to electricity then. I suspect there will be a fair amount of interest in commenting on this topic, so -- we have somebody moving up to the mike already.

MR. CHEN: Good morning, Commissioner Geesman and Commissioner Boyd. My name is Bill Chen; I'm Director of Government Affairs for Constellation New Energy.

Thank you for the opportunity to provide the Commission with some comments this morning on the 2005 IEPR.

Constellation New Energy is a retail energy service providers in the state. We've been serving large commercial and industrial customers in California since the market opened, and currently serve about 100 megawatts of peak load. We are also a member of the Alliance for Retail Energy Markets, a regulatory alliance of five ESPs that serve the majority of DA load in the state.

Constellation New Energy --

PRESIDING MEMBER GEESMAN: Could you speak up a little bit? Could you speak a little louder?

MR. CHEN: Sorry. Constellation New Energy, along with the other member companies, would like the issue of retail customer choice to be specifically recognized in the 2005 IEPR and play an important role in the discussion and development of the report.

We were concerned to note the absence of any mention of retail choice and related topics such as core/noncore, market structure and community choice aggregation in the staff's scoping proposal. The 2003 IEPR contained a good discussion of retail customer choice, and especially had -- opportunities for customer choice. We believe the 2005 IEPR would be woefully incomplete without the same level, if not more, recognition of a discussion of retail choice as was contained in the 2003 report.

The implementation of a core/noncore model as a viable retail market structure has been the subject of a great deal of discussion during last year's legislative session, the current session and at the CPUC.

In addition, the Governor supports retail choice, including the lifting of the current direct access suspension. And has recognized the implementation of a core/noncore market structure as a viable means to accomplish this market reopening.

Therefore, Constellation New Energy and the member companies of AREM respectfully urge the Commission and staff to insure that retail customer choice is given an important role in electricity policy discussions for the 2005 report. We stand ready to participate in these discussions and serve as a valuable resource to the Commission and staff during this process.

Thank you.

PRESIDING MEMBER GEESMAN: I want to

thank you for your comments. The Commission, last week at its business meeting, unanimously endorsed in concept Commissioner Peevey's proposal for the core/noncore structure. And I think you can anticipate that we will remain committed to further pursuit of the recommendation.

My own view is that it's an area that has moved far enough that the Public Utilities Commission is likely to be in the lead here in terms of fleshing out the details of any proposal. And it would at least appear that the Legislature is looking to the Public Utilities Commission to provide additional information on that type of market structure.

So, you should not interpret our reticence on the subject as any diminished commitment or interest. And we will review what positive contribution we can make in this next cycle to that issue.

MR. CHEN: Thank you, Commissioner, I appreciate that.

MR. KENNEDY: Additional comment on the electricity topic?

MR. GLICK: Thank you, Commissioners. Ken Glick with the Electricity Oversight Board.

There are two very important but focused issues to look at.

We look at this debate in terms of not only the availability of the resource, itself, the supply, the generation capacity, but also the issue of congestion. We know that you're very familiar with those issues, but we urge that the study focus on what could be done to mitigate congestion, both as a policy matter, pricing and market structures that would mitigate that; but, also perhaps infrastructure development.

Thank you.

PRESIDING MEMBER GEESMAN: Thank you.

MR. KENNEDY: Additional electricity comment?

MR. TENNIS: Good afternoon, Commissioners. My name is Matt Tennis. I am -- I guess it's still morning, isn't it?

I am the Legislative Director for the Associated Builders and Contractors of California. We represent roughly 1400 primarily nonunion construction companies. Our members build power plants, transmission facilities, petroleum infrastructure. This includes refineries and also shipping terminals.

Recent local government documents and new media reports have revealed a serious ongoing abuse of the Energy Commission's licensing process, wherein intervenors in the application processes are pursuing infrastructure developers on environmental grounds using the EIR and CEQA processes, raising issues that are of little or no consequence -- or I'm sorry, that have little or nothing to do with the intervenors' actual goals in the process.

This has to do with major data requests that are being given to developers; objections that are raised through the CEQA licensing process at the Commission.

This has occurred with respect to power plants, petroleum facilities, and most recently ethanol facilities. I know that most, if not all, of you are familiar with an organization called California Unions for Reliable Energy, also known as CURE.

CURE is represented before the CEC by the lawfirm of Adams, Broadwell, Joseph and Cardozo. CURE intervenes on most major applications for power and petroleum production facilities on behalf of labor unions that are seeking to secure a monopoly on all the work associated with the construction and upkeep of various projects.

These so-called project labor agreements add anywhere between 15 and 30 percent to the overall cost of projects. They do this by prohibiting construction bids from all companies whose workers are not union, the kinds of companies that I represent in my capacity with Associated Builders and Contractors.

A number of our members, both in California and in other states, have established histories of constructing quality power plants and we feel that these companies' performance in this area should qualify them to bid on California work related to energy infrastructure development, not their workers' union affiliation or lack thereof.

I digress into talking about these project labor agreements because unfortunately these agreement and negotiations surrounding these agreements have come to play a central role in how the Commission's licensing process plays out practically today.

It is central because CURE and its labor union clients are abusing the CEC licensing process in order to win project labor agreements from developers. An alarming description of CURE's practices recently appeared in an official report prepared by the staff of Roseville Electric, a municipal utility currently seeking approval from the CEC to build a 160 megawatt power plant north of Sacramento.

In the July 12, 2004 communication to the Roseville City Council, Roseville Electric Staff indicated the following: An organization called California Unions for Reliable Energy (CURE) has, in the past, intervened on most power projects in the CEC process. On those projects that agree to a PLA" that's a project labor agreement, "and the related other agreements, CURE's involvement has been light and supportive. On those projects that do not sign PLAs CURE's involvement has been heavy and adverse to the interest of the project's sponsor. CURE is the only intervenor on the Roseville Energy Park permit before the CEC, and is in position to adversely influence the Roseville Energy Park under the CEC permitting process."

The City of Roseville ultimately voted to approve the project labor agreement for the

Roseville Energy Park, saying that while they fundamentally disagree with the union-exclusive agreement in principle, they feared the results of resisting CURE at the Energy Commission. The vote, by the way, was four to one in favor of approving the project labor agreement.

Members of the Council lambasted CURE and the California State Building and Construction Trades Council for their rampant abuse of the CEC licensing and intervenor process.

Preliminary research by the Associated Builders and Contractors confirms that CURE has intervened on a great many power projects in California. We see the results of their intervention in the staff documentation of municipal power authorities like Roseville Electric.

But how many private developers of energy infrastructure have also received menacing data requests and objections raised towards them and their projects through the CEC's licensing process.

A delegation of 27 legislators in the California State Assembly have requested that in this year's IEPR -- excuse me, the 2005 IEPR, that the Commission make a point to at least address these issues that are being raised in Roseville and elsewhere throughout the state.

By the way, there was a significant media coverage of the situation in Roseville, which we've included with our written comments to the Commission on this matter.

Let's go back to this delegation letter. I just want to point out Dave Cox, Assembly Member from the northern Sacramento area was the lead signatory, and 26 of his colleagues also signed on, have asked the Energy Commission to look into this matter that has been dubbed "greenmail". That's what the abuse of the process is being called. And that this will just receive some treatment in the IEPR.

The Commission and staff are in a position, through the relationships that they have with the many industry players, to have off-the-record discussions, some out in the open, just gathering information on how widespread these abuses are and what sort of impact they're having on infrastructure development.

Clearly cost is an issue to the developers. The hurdles associated with getting a project through the process is an issue here. And also how much staff time is spent addressing issues that are raised by CURE which, again, the primary purpose of which is not related to the environmental issues, themselves. Once the developer signs a project labor agreement, data requests go away, complaints in other areas go away.

You know, this is wrong, I guess would be sort of a closing point. And the Commission should address it purely on that basis, if for no other reason.

I'm available for any comments or questions that you may have.

PRESIDING MEMBER GEESMAN: Matt, let me make a couple of comments. One, I am on the Committee of the Commission considering the Roseville application. So, Kevin, I'm going to ask you to make certain that his remarks and written submittals are docketed in that case. And I think you probably ought to also make certain that they're docketed in the City of Riverside's application for small power plant exemption. I'm on that Committee, as well.

I think rather than address this in the

IEPR, which will not result in a product till November of '05, that I think it's probably preferable that as the Chair of the Commission's Siting Committee, I simply pose the question to our Executive Director and ask for him to look into the question and develop a response. I think that will provide a more timely response to the questions that you raised.

I guess I would also say that in Roseville we've not yet had a Committee hearing on the case, so I'm not aware of any data requests, abusive or otherwise. And as a consequence, along with the fact that other than in Riverside, in my two years here on the Commission CURE has not been an active participant in any of the half dozen or so cases to which I've been assigned.

They've been an intervenor, but in none of those other cases have they actively participated. So I think that our Executive Office may be the one best situated to get a quick assessment as to what the actual facts are. As their response becomes available I'll certainly bring it to the attention of the rest of the Commission and make it available to you and your members, as well.

MR. TENNIS: Thank you. One final comment. You would not necessarily be exposed to any negotiations that occurred, you know, in your capacity as a Commissioner. It wouldn't necessarily reach you, and in fact, probably wouldn't reach you.

Another thing that came to the surface in the Roseville situation was a lead agreement between CURE that was negotiated between CURE and the staff of Roseville Electric that is fascinating reading.

If any of you are intrigued by the things that I'm saying today, there are literally nine points of an environmental nature, all of which anybody in the business would consider to be trivial and par for the course in building a power plant.

We're talking about keeping bacteria levels down in steam stacks; we're talking about watering the roads. The final item in the lead agreement is signing a project labor agreement. And the deal was if Roseville did all of these trivial things, and they're included in our submission, as well, plus sign the project labor agreement, that CURE would go away.

PRESIDING MEMBER GEESMAN: Well, without having any exposure to the negotiating process or document you're referring to, I should say that in cases where CURE has not been an active intervenor this Commission has spent a lot of hours of evidentiary hearings on some of those issues that you characterize as trivial, but which from a litigative standpoint, do potentially represent problems that our permit would have if challenged in court, had we not adequately addressed the issue.

I think the area that you raise that is of greatest concern with me is the potential abuse of our process. And that's why I want to ask our Executive Director to review your comments, and to provide a response. I want to make certain that there's no abuse of our process from CURE or from anyone else.

MR. TENNIS: Okay. Who would that be, sir?

PRESIDING MEMBER GEESMAN: Bob Therkelsen.

MR. TENNIS: Thank you very much.

PRESIDING MEMBER GEESMAN: Thank you.

ASSOCIATE MEMBER BOYD: I guess my only

comment would be, not sitting on the Roseville case, is registering a little bit of surprise that somebody threw in the towel before the case really got to the Commission. So the bark may be more effective than the bite. But that's all in the art and skills of negotiating.

So, as Commissioner Geesman said, we'll certainly look into it. As the other Member of the Siting Committee I agree with his approach to this.

MR. KENNEDY: Do we have any other comments on the electricity topic?

MR. FRIAR: I would.

MR. KENNEDY: Go ahead.

MR. FRIAR: My name is Steve Friar; I am the Director of the Coalition for Fair Employment in Construction.

I just want to echo what Matt Tennis just had to say about the environmental greenmail. I represent a group of contractors across the State of California as well as Nevada who do build these types of projects. And we have encountered CURE time and time again. I just want to go on record as opposing their tactics.

Your mentioned the City of Riverside

just recently. The City of Riverside actually passed this project seven-zero to move forward. CURE and the unions were at that meeting and they never once mentioned any environmental concerns. They just mentioned the PLA issue.

One of the problems that we have here is that you mentioned that you might not see CURE as being too active in the past couple of years. That is because they have been very effective at making sure developers just sign these things right away.

The lawfirm that represents CURE has been involved in these types of cases since 1985. And they have quite a track record. So many of the individual, like the City of Roseville and others, just go ahead and sign these things prior to, instead of going through the entire process and possibly not getting approval through delays because it costs money.

The City of Riverside obviously has decided to go forward without a PLA and that is why they're intervening so furiously on this project. And that is our problem we have. It's also leaking into the private sector, which is none of your concern at this point. But they're trying to get developers on these same issues.

They don't represent CURE in this case, but it is the same lawfirm. We're encountering these in San Diego and other parts of the state.

So I just wanted to go on record that this is a problem that we do urge the Commission, and possibly through your advice to go through your Executive Director, to investigate this a little further.

Thank you.

PRESIDING MEMBER GEESMAN: Thank you.

MR. KENNEDY: Steve, if you could spell your name for the court reporter?

MR. FRIAR: Steve Friar, F-r-i-a-r. Like Friar Tuck.

MR. KENNEDY: Thank you.

MR. FRIAR: Thank you.

MR. KLOBERDANZ: Good morning, Commissioners. I'm Joe Kloberdanz. Today I'm representing Southern California Gas Company and San Diego Gas and Electric. We will, of course, file more extensive comments on August 25th, the date set for filing of comments in this matter. And it will be on a wider variety of issues worthy of your attention in the 2005 IEPR.

But today in the limited time allowed I want to focus on a single issue of great concern to our companies. Now, you may be thinking that he's going to talk about electric transmission because you've seen me or one of my colleagues at this podium addressing that issue quite often in recent months.

Let me assure you that issue remains prominent on our list of concerns. You know, for example, the SDG&E is the poster child for what is wrong with the process of getting electric transmission infrastructure licensed and built in California.

The congestion costs for California customers due to this phenomenon in SDG&E's service area alone is legendary. It's measured in eight or nine digits.

We know that transmission does not get timely regulatory action. We know that the thinnest rationale can catapult minority public opposition and NIMBY thinking into the lead role in thwarting infrastructure projects that are desperately needed by the public at large. And we know that utilities need to work diligently with affected communities when siting these projects.

Incredibly, we now see that this state's public spirited goal for development of renewable electricity projects may, itself, fall victim to this malaise. It is indeed critical that we promptly improve the transmission project approval process in California to achieve state goals, such as the growth of renewable generation and reliable delivery of electricity, in general.

But I'm not here today to talk about transmission.

(Laughter.)

MR. KLOBERDANZ: You'll see us back here on August 23rd at a hearing that's focused on these issues. I will have more to say about transmission then. And as I said, we will, of course, file comments August 25th on a broader range of topics for the IEPR.

Today I want to encourage you however to take a hard look in the 2005 IEPR at the optimal role for the investor-owned utilities in developing the energy infrastructure we all agree is needed for California's growing population and recovering economy.

I'm referring to infrastructure in perhaps a broader way than many of us think of it.

I'm not talking about pipes and wires alone. I'm talking about the kinds of programs, kinds of things that we are doing in the energy business that go beyond the traditional infrastructure.

With the CEC we want to identify and implement partnerships between government and the investor-owned utilities that assure the timely focused development of these kinds of assets and programs that policymakers identify as being needed in California.

Significant progress can be made, for example, in the deployment of renewables, distributed generation, energy efficiency, demand response and advance metering, and the effectiveness of RD&D if motivated utilities have meaningful roles.

But there is a disturbing trend toward cutting the utilities out of these roles. Increasingly utilities are becoming little more than tax collectors for much of this activity. And there are forces at work that would complete that transformation as soon as possible.

Utilities collect from their customers the funds that fuel much of the activity in these areas that I just mentioned. And it is not in the state's best interest to prevent the participation of proven developers or energy infrastructure, the investor-owned utilities, in achieving the state's goals for development of these assets.

SoCalGas and SDG&E, for example, together collect about a quarter of a billion dollars per year for these kinds of efforts. That's with a "b". If nothing else, the utilities have a responsibility for efficient stewardship of our customers' money.

SDG&E and SoCalGas develop energy infrastructure, the conventional kind, for their customers with a capital budget averaging over $700 million per year today. In addition to providing gas and electric infrastructure to serve our customers, SDG&E and SoCalGas, I daresay, enjoy solid reputations as planners and implementers of energy efficiency programs, distributed generation programs, advanced metering installations. We manage effective RD&D efforts.

SDG&E has made rapid progress in securing renewables, generation resources consistent with the state's RPS goals. SDG&E's sustainable communities program, for example, employs distributed generation, renewables, energy efficiency and advanced metering and energy technologies in integrated, sustainable community-based approach to meeting the customer energy needs and achieving demand savings.

The MarVista mixed use building project and TKG offices projects are the newest examples where we're already putting some flesh on the bones of this recently begun and innovative effort.

Just a few illustrative facts on one of these projects, if I may. The TKG engineering project involved a complete renovation of a 20,000 square foot office building. The infrastructure in that building was brought to approximately 30 percent better than title 24; 40 kW photovoltaic was put on the roof; 5 kW fuel cell with heat recovery demonstration capabilities was installed. The project provides direct supply for the grid and peak shaving. The system is able to be monitored by the local utility.

The U.S. Department of Energy, Office of Electric Transmission and Distribution, recently recognized SDG&E's sustainable communities project as an innovative approach to modernizing the distribution power grid. And said it may serve as a model for other utilities.

In other words what I'm trying to illustrate here, Commissioners, is that we do this stuff. Commissioners, Southern California Gas Company and SDG&E are proud of the reputations they have earned as effective developers of infrastructure, both of the traditional variety and in the areas of energy efficiency, distributed generation, advanced metering, RD&D and renewables.

We want to partner with you and others and apply these skills and invest in programs and infrastructure to further the development of California's energy infrastructure of the future.

We encourage you in the upcoming IEPR to investigate ways to avoid relegating the investor-owned utilities to a mere tax collector or billing agent role. We're not interested in that. Instead we should leverage the proven infrastructure development capabilities of the investor-owned utilities for the good of all Californians.

I appreciate your time, thank you.

PRESIDING MEMBER GEESMAN: Let me respond in a fairly strong fashion. This is a bit of a chicken-and-egg problem in my view. Take the debate that's gone on in the last four or five months in state government as to how to best carry out an expanded solar energy program.

I have suggested in this forum and numerous other workshops a fairly high level of skepticism that we will achieve the penetration rates contemplated for solar energy in new construction without an active business role on the part of the investor-owned utilities.

That's been met, for the most part, by deafening silence or substantial ingrained resistance from various stakeholders in the existing solar industry and the various other participants that have a role to play in that debate.

If you present a strong, aggressive scalable business proposal or range of proposals we will, in fact, review those in careful detail; set up a feedback mechanism where you get the response not only from this Commission and other state agencies, but I think through our process, other stakeholders, as well. And without going through the process that of necessity is carried out at the Public Utilities Commission, where you actually have to put forward a proposal and be really performing without a safety net, here it's just discussion and debate.

So, if you're not happy with the results there's no obligation and no embarrassment as to moving forward with the outcome.

But I think it would be more productive for us to respond rather than for me to continue to push on the string that I sense I'm doing with respect to the three investor-owned utilities within the state.

Now, I think your two colleagues are still a bit punchdrunk from their financial experiences the last several years. And as I've said to your company both privately and in these public sessions, I think Sempra, and in particular the Southern California Gas Company, are best situated to lead the way in this area.

I think there are good follow-on ramifications with respect to the other two investor-owned utilities, but based on your history, and I think, as you'll recall, in the 1970s the Gas Company recommended a very aggressive role for itself in the solar water heating area. And I've acknowledged in the past having been on the wrong side of that issue in the 1970s, and thinking that we ought to take a different approach as we move forward with solar in the 21st century.

But I'd really strongly invite your company to put forward a business proposal; not as interested in a bake sale or community chest feel-good recommendation, as something that clearly makes sense from your standpoint on an ongoing basis as a business.

And I will commit to you we will fully evaluate it and set up a process to provide you with what I hope to be meaningful feedback.

MR. KLOBERDANZ: We appreciate that, Commissioner. We realize we have some work to do, and we need to bring you the kinds of things you just described.

I want to be real clear in case anybody on the dais or in the room was confused about it. I'm not suggesting an exclusive role for the investor-owned utilities, far from it. But it's clear to us that we ought to have the opportunity to have a role, and that we bring something to that party.

And so that's what I'm proposing. Not

exclusivity, it's inclusive. Thank you.

PRESIDING MEMBER GEESMAN: Very good.

MR. NICHOLS: I suppose I can safely say good afternoon now.

(Laughter.)

MR. NICHOLS: My name is Nick Nichols. I'm with Navigant Consulting, and come to you today simply as a participant in the energy development sector of the State of California with a few comments that we hope will be helpful to the Commissioners and the staff in completing the objectives that you've set out today.

I'm going to be filing written comments that are a bit more extensive, and for brevity I'm just going to briefly lift out six items that we wanted to bring to your attention. But I invite you to spend a little time reading the written comments that you have which will flesh out these ideas a little bit more.

The first issue has to do with criteria. The CEC has set out its need and intent of determining the adequacy and reliability of the gas and electric infrastructure. However, it's not clear that the criteria against which this is going to be measured has been set out clearly or at least vetted publicly, perhaps.

For example, the adequacy of the electric facilities is going to measured against certain contingencies, and the identification of which contingencies do we, as a state, want to meet in the planning -- they may be different for short term than long term -- will impact the cost/benefit analysis. And we think there may be some benefit in exploring that area.

Related to that a little bit has to do specifically with the gas planning. One issue we wanted to bring up was the use of average daily gas requirements in the gas planning that we've seen to date by the CEC.

We believe there's some benefit in looking at peak day capacity requirements. If, indeed, we're focused only on the average day requirements, we believe that we may miss like a year or even more the limitations of certain infrastructure. And the whole idea of going to a peak day requirement involves a lot of other standard settings. But that was one issue.

A second issue relates to the water/power interaction which has been referenced a little bit relative to seasonal exchanges. But for the last 50 years the desert southwest and California and the Pacific Northwest system has been developed giving consideration to this multi-year swings in the hydroelectric availability.

And we really don't think that there's been adequate focus on the inter-regional planning procedures to take advantage of how we can best take advantage of the hydro in the very very wet years, and to mitigate the problems in the very very dry years. It's definitely a west-wide planning issue. And it's somewhat difficult to take that into consideration if you're just looking at California or just Pacific Northwest. So we just wanted to reiterate the need to look at the inter-regional planning procedures related to that.

A fourth issue relates to distributed resources. There's a separate proceeding that's looking at certain characteristics of that, but we really believe that that can have a pivotal impact on the future, on development of the California systems.

One other item we wanted to bring up, and it has to do with the dual fuel capability of gas plants. Gas, being on the margin, in

California there is the ability, because of a constrained supply, to bid up price spikes at certain times. We feel that the Commission may want to give consideration to looking at the tradeoff of possibly certifying dual fuel capability at the gas plants, environmental versus economic tradeoffs.

We feel that even the threat of having this could mitigate certain price spikes even if the dual fuel isn't actually used. Of course, you'd have to demonstrate the ability to actually do that.

PRESIDING MEMBER GEESMAN: Haven't we moved quite a bit beyond that, though, in terms of the air quality restrictions?

MR. NICHOLS: Very very possible. We just want to bring up the thought one more time --

PRESIDING MEMBER GEESMAN: Yeah.

MR. NICHOLS: -- to look at the overall cost and benefits. It could very well be.

PRESIDING MEMBER GEESMAN: I just have the sense that California turned that corner a few years ago, and the rest of the country seems to be taking the same turn, as well.

MR. NICHOLS: Absolutely. And there's

some other alternatives, too. There's some storage issues. There's some other ways to --

PRESIDING MEMBER GEESMAN: Okay.

MR. NICHOLS: -- address the issue, other than necessarily burning oil.

PRESIDING MEMBER GEESMAN: Okay.

MR. NICHOLS: We also wanted to point out finally in the energy action plan the state has put forth the concept of optimizing energy conservation and resource efficiency. And we wanted to put an emphasis on the resource efficiency side of that.

We think that there's a number of things that can be done related to storage, related to transmission, new technology that would play into this area.

So we thank you for the time.

PRESIDING MEMBER GEESMAN: I would ask you, Nick, in your written comments if you could elaborate on the areas that you think we might pursue in more detail in seasonal exchanges, I think it would be very helpful.

I have some concerns that direction our procurement in resource adequacy process is moving in tends to not take adequate recognition of the value that those exchanges have provided in the past.

And I think that there are issues that need to be addressed in purely California proceedings, as well as we need to have a pretty focused agenda in our dealing with the other western states, as well.

MR. NICHOLS: Exactly, sure.

MR. ALVAREZ: Good afternoon. Hopefully I won't keep you from lunch. Manuel Alvarez, Southern California Edison.

First of all there's a couple of things I want to bring to your attention for the Committee's consideration, but before I do that, let me state that we will, as well as participating in your meetings, I guess three meetings next week on three different subjects, we'll be quite active there.

The two things I'd like to bring to your attention are keeping your mind focused in this particular report on the long term. This is the 2005 report. And what I'd like you to focus on is what the implications are in the recommendations you're going to make at the end of the process for the long term.

We're all aware of all the urgency issues that are before us today, and there's urgency and crisis are going to focus our minds; and you folks, as Commissioners and policymakers, pay attention to those issues.

But this document I want you to focus on the long term. Give us the perspective of the long-term vision and where you want to take us, where you want to take us as an industry, as an investor-owned utility company, and the state at large. I think that's the guidance we want to see from this report.

PRESIDING MEMBER GEESMAN: And how far out would you focus that long-term horizon?

MR. ALVAREZ: i would take it out at least ten years, and possibly even longer than that. I mean I'd go back to the core elements of the Warren Alquist Act and look out to a 20-year horizon, keeping those issues in mind.

No one's doing that, and somebody needs to do that. I think you're best suited for that.

The other issue I want to bring to your attention is this question of coordination between the agencies. And to be cognizant of the years of coordination of government and the various processes and institutions that are involved in that. And just be aware of who's participating in that process and what can happen as you get in those gears.

And what I'm concerned about is everyone who has to participate in that coordination process basically getting ground up and dealing with the details of that coordination process. You brought up the question earlier of confidentiality. You're well aware of that issue; that issue has been with us for quite awhile, and the complexities between the various institutions.

There's a host of issues like that dealing with relationship between the various agencies that have to be dealt with. And so be cognizant of those gears and the consequences they impose on everyone.

Thank you.

PRESIDING MEMBER GEESMAN: Thank you, Manuel.

DR. TOOKER: Manuel, I have a question. Given the ongoing nature of some of the issues before us that we are optimistically considering short term, how would you propose we deal with these in a way of assessing where we're going to be on these issues and wrestling with them in order to maintain a longer term focus?

MR. ALVAREZ: Well, I think, as the Commission, you have a number of forums in which you can address those short-term issues. I think your coordination in the energy action plan and your meetings with other Commissioners in other institutions was a good example of how you dealt with a short-term problem, how to get the government coordinated.

And I think that can still go on. That may not have to go on within this particular process. But no one has a view of the long term. No one's bringing forward that long-term view.

We all have our daily activities, our daily issues to do that. I think you have to work through those with the various participants in the process, the utilities, the independent energy producers, the folks who are advocating any other particular activity, and then direct relationships with the other commissions and departments and agencies that you have to deal with.

The ISO is an entity that you must address and talk to, how your relationship in the future in the long term will be established with them. They are currently looking at market redesign questions currently. And while those are very important, you're gong to have to deal with some of those basic assumptions in your own thinking and say, okay, where does that take us in the long term. And try to keep that focus ont he long term period and say this is where we think we'd like the state to be.

It's a difficult area. We all do it in our daily lives, dealing with day-to-day issues, as well as what you want to do in your own long-term planning. But somebody's got to put that long-term planning out there for people to evaluate, consider and digest. And I think you're best suited for that.

DR. TOOKER: Thank you.

PRESIDING MEMBER GEESMAN: I think that's well taken, and I find your 10- and 20-year focal points to also be well suggested.

MR. GULIASI: Good afternoon, Les Guliasi from Pacific Gas and Electric Company. I actually came here today with no specific agenda to push, no particular points I wanted to make. Just really to think more about the process and sort of the outcome of this proceeding.

Principally I'm here really to listen, to kind of figure out how best we can contribute to your process.

I'm thinking in my mind kind of the level of effort that will be required. I'm appreciative of your awareness of the need to coordinate with other agencies, particularly with the Public Utilities Commission. That takes up a lot of our regulatory activity back at the office.

I recognize that there's going to be a lot of work involved sort of in the back office to provide your staff with data; to provide analysis. I want to make sure that we have an effective role, that we can assist you in whatever ways you need, and that we have active participation to influence the outcome of this process.

I think the staff bit off a very ambitious amount to chew on here. And I'm grateful for the thinking that's going into this process to identify the priorities and the most important issues. And the grouping of those issues; there's a lot of issues that are related to one another. And I think you're doing a good job at the outset to kind of think through what those priorities are and the interrelationships among the various pieces.

I think really the most important issue from my perspective is the continuing discussion about infrastructure, infrastructure development. The issues that we face today I think are going to be the same issues that we're going to be facing in 14 months. I think there's still a lot of work that we're immersed in to kind of get us through the next, you know, the next few months.

And I think there are answers that will be forthcoming through various activities at the PUC. We talked earlier about the PUC's procurement proceeding and the decision that's supposed to come out at the end of this year that will kind of then set the terms for activity going forward. We have procurement activities going on now. And we'll see the outcome of those activities very soon. And all that information will inform us as we go forward.

You guys are in a great position to kind of balance the kind of short-term and the long-term perspectives. I shudder to think that we're really going to take a 20-year perspective here. I don't think we're ready for that. But I do think that we do need to look kind of at the longer term. You're the agency best suited to do that.

But I think really we're -- I think from all practical purposes, we're really looking at a five- to a ten-year horizon, not a 20-year horizon, with all due respect to my friend, Mr. Alvarez.

The whole issue of resource adequacy is key. And that's one that we need to work through, especially from the infrastructure development perspective. Who's going to build; how much needs to be built; who has responsibility. These are questions that are being worked out. And I think we need the benefit of a little bit more time to get some answers that are clearly defined before we start thinking about 20 years down the road.

I'm glad you're going to talk about emerging issues. I think LNG is a very important issue that the state needs to address in terms of long-term gas supply.

Another issue that's important is to really continue to push, as your agency is best suited to do, to look at the overall supply picture, infrastructure development picture, resource adequacy picture at a statewide level.

We still suffer from a lot of regulatory dysfunctionality that basically stems from the patchwork we have of ownership of facilities in the state. We have investor-owned utilities; we have municipal utilities; we have irrigation districts; we have a hybrid market. And there's nobody better suited than this Commission to try to address some of these issues at the broadest statewide level.

I guess I want to close with raising a question or a concern, and that is what's going to be the impact of the 2005 report. I know the Energy Commission has come a long way from a few years ago where you were essentially kind of a study-and-report agency. You gained a lot more relevance through the energy crisis. And I think you're well suited today to continue to play a prominent role in developing the state's overall energy policy. And, I might add, to add to the regionwide and even national debate about the future of energy in the country.

But, you know, I was thinking about the impact of the 2003 report, and we're still in the midst of assessing and discussing the 2004 update. The report, as I understand it, was delivered when it was supposed to be delivered or shortly thereafter, to the Governor and the Legislature.

And I guess I need to ask you, kind of, what's happened since then. And I want to make it clear that I'm not trying to put you on the spot or assign any blame for nothing happening with that report, but in order for you to be effective and for you to help guide the way, we need to make sure that the reports that you publish have some practical impact.

We all are aware of the California performance review, and I suppose that process could overtake a lot of the debate and issues that we're going to be talking about in the 2005 IEPR. And I'm concerned that we all need to think about how we're going to best direct our energies so that we don't lose our effectiveness. And we make sure that we're debating these issues in the right places.

Again, the Legislature is another important venue. They're debating some of these same issues that people have raised here, the whole issue of market design or core/noncore, those kinds of issues are still in play in the Legislature.

S, I guess I'm not expecting you to answer these questions, but I just want you to think about kind of longer term implications of the issues you raise and the proposals you develop through the IEPR process, and the ultimate report that's going to come out a year or so from now. And make sure that, you know, we have in that report our eyes on action and our eyes on where that action is going to take place to move us forward.

Thanks. That concludes my remarks.

PRESIDING MEMBER GEESMAN: Well, thank you, Les. As it relates to the '03 report, we will be including in the 2004 update presented to the Commission for adoption at the November 3rd business meeting, and subject to some public workshops in early October, a progress-to-plan chapter that goes through the different recommendations from the '03 report and addresses what's been done with them since the Commission adopted them.

As one of the careful parsers of pronouncements from the Governor's Office as it relates to energy policy, I'm not aware of any of the statements of policy that the Governor's

Office has issued since they came into office that have been in conflict with the '03 report.

I'm not confident that he has touched on all of the recommendations made in that '03 report. And it's my understanding that at least right now their intent is to respond to the '04 update as really a better platform of defining the thinking going forward.

Given the timeframe contemplated by the California performance review, my hunch is that whether its recommendations adopted by this Commission for its own implementation or for referral to some successor body, the year 2005 will continue to be a California Energy Commission oriented year. What follows on in 2006 at this point is anybody's guess.

But I think the question will remain topical, and at least right now we're best situated in terms of the different state agencies to perform this process. And I think our forum is probably the most open to invite the participation from the various interests around the state that hopefully will participate.

I had one particular area that I wanted to encourage you to have your staff provide some further thought on, and hopefully some fairly early feedback to us. As I think you know, although I don't believe we've formally set a date, we're going to be having some data workshops in September trying to figure out what the data needs of the '05 cycle will be.

One of the biggest questions on the electrical side, and one that I think probably affects your company more than the others just because of your geographic spread, is the extent to which we can productively disaggregate our demand forecast.

As I think you know the ISO has been pushing us to disaggregate to a much greater level than we've chosen to in the past, and I think in pursuit of their efforts to put nodal pricing or locational marginal pricing into effect, that disaggregation serves a pretty clear purpose.

My guess is that irrespective of what you think of nodal pricing, some greater disaggregation than we currently do would be useful. And I would suspect that your company has made a historic practice of disaggregating your load projections moreso than we have in state government.

My question for you to give some thought to is really where you see us being able to make significant progress in disaggregating the load forecast in this cycle. And what steps will it take to be able to do that.

I do think that this is one of the areas where we can make our process more useful to the different entities that end up making some reliance on our end products and disaggregation of load projection seems to be a pretty high priority.

MR. GULIASI: When you mention nodal pricing you're talking here mostly about disaggregation geographically?

PRESIDING MEMBER GEESMAN: Yes. I know there's an argument for temporal disaggregation, as well. But I'm more focused on the geographic disaggregation.

MR. GULIASI: Okay, thank you. I'll take that back.

ASSOCIATE MEMBER BOYD: Les, for a gentleman who came here unprepared to say anything, I must comment that you pretty accurately described the mine field through which we have to negotiate in trying to come up with a meaningful report for 2005, a report that can really contribute to the California situation.

And I'm reminded by the difference of opinion between you and Manuel on how long we should look out there, maybe it's kind of the academic perfection versus reality. And I don't know what the answer is. I'm still constantly thinking of Steven Kelly's earlier remark about we should be looking at why aren't they building anything out there. And one could spend an entire day debating well, let's see, something to do with the procurement process just isn't dealing in the long term yet, and nobody will put up money. Or is it the once in awhile chilling effect of hearing the ISO's out there independently designing our future. Or et cetera, et cetera.

So, we do need to all work -- you know, and that coupled with and you need to coordinate with everybody. Well, we do need, as Commissioner Geesman said, input from everybody on what it is we can best put forward, and how we can best coordinate. And how we can get the data that will help us deal in this environment that you very accurately have described.

So I compliment you on your seat-of-thepants view of the world.

MR. GULIASI: Thank you. It wasn't so much I didn't have anything prepared to say as much as I didn't have any particular agenda to push, no particular issue that I wanted to raised to your attention to have you, you know, deal with today, or to think about solving a problem for us.

I'm really here trying to figure out how best we can participate in your process, make this process effective. And find at the other end something that we can take action on, and not just have another report and another set of recommendations going nowhere.

I think in order for this Commission to be effective, and for you to continue what you've been doing very well for a couple of years, I think you really need some oomph. And want to make sure that we keep our eyes on the end product and where we're going to go next.

ASSOCIATE MEMBER BOYD: Thank you.

MR. GULIASI: Thank you very much.

ASSOCIATE MEMBER BOYD: And I didn't mean to demean you by saying -- I know you're always prepared to say something.

Kevin, will you address the person out

there who's eating their lunch that we all have been listening to for the last 15 or 20 minutes -- somebody out there has an open mike, I suspect on a conference phone, that they have not muted. And for the past couple of hours been listening to the shuffling of stuff around the table or a desk, the movement of plates and the munching on lunch that the rest of us aren't able to do.

So, will somebody have the courtesy to be careful out there and be cognizant that all of this is broadcast to the entire audience here in this room and everyone else out there who's listening.

I think I just did your work for you.

MR. KENNEDY: I think you covered that very well, thank you.

(Laughter.)

MR. KENNEDY: And speaking of lunch, my inclination at this point actually is to invite any of the call-in people, on the off-chance that we may have trouble reconnecting after lunch with the conference call, after checking whether there's any more comment on electricity in particular, but sort of give the conference call folks a chance to make their comments now, and then perhaps break for lunch.

Does that work from your perspective, John?

PRESIDING MEMBER GEESMAN: Yeah.

MR. KENNEDY: Are there any additional comments on the electricity topic before we jump ahead to asking the conference call folks for general comment?

Okay, as I said, on the off-chance that we will have trouble reconnecting the conference call after we break for lunch, I'm always a bit skeptical of having the technology work perfectly all day, is there anyone on the conference call who is interested in speaking on any of the remaining topics that would like to jump in at this point?

Perhaps not. Would you prefer --

ASSOCIATE MEMBER BOYD: I did not mean to chill all further discussion.

(Laughter.)

MR. KENNEDY: That's right, you can take the mute button off if you want to actually make a comment now.

Should we continue to natural gas, or should we break now? I know, Commissioner Boyd, that you have a conflict for some part of the afternoon, so --

PRESIDING MEMBER GEESMAN: Why don't we break now.

ASSOCIATE MEMBER BOYD: I think it's a good time to break.

MR. KENNEDY: Okay. What time would you like to have us come back?

PRESIDING MEMBER GEESMAN: Why don't we say 1:30.

MR. KENNEDY: Okay, so we'll take a quick lunch break. We'll reconvene right at 1:30. For folks who aren't familiar with the area, there's a number of lunch places a little bit to the east, sandwich places and various things like that. I can give you more directions if you need them.

Thank you.

(Whereupon, at 12:40 p.m., the hearing was adjourned, to reconvene at 1:30 p.m., this same day.)

--o0o--

AFTERNOON SESSION

1:38 p.m.

MR. KENNEDY: Why don't we go ahead and reconvene. The first topic we're going to take up this afternoon is the natural gas topic. So, want to put out a call to see if there's anyone here in the audience or on the phone who has comments on natural gas.

Perhaps if we work this right we can get through all the remaining topics before the rest of the audience is quite entirely reconvened. But we'll see how this goes. I suspect we may do a certain amount of circling back as we move forward.

PRESIDING MEMBER GEESMAN: And that would be fine.

MR. KENNEDY: Moving on next to steps for achieving the state's preferred energy loading order in terms of efficiency, then renewables, then more traditional resources.

This is one where I have some suspicion that the comments on electricity may actually have sufficiently covered this topic, but if anyone has additional comments on this that they would like to add at this point, either in the audience or the phone. Please come up and speak.

MR. BLUE: Good afternoon, my name is Greg Blue. Never missing an opportunity to speak. I apologize I wasn't here this morning and this topic may have been covered. I've just briefly looked at some of the documentation associated with this, but just giving people a heads up.

One of the things we're going to be recommending, not only in this report, but in the procurement proceeding, and perhaps even the aging power plant study is on the energy loading order we're going to be recommending that repowerings be listed as an explicit resource in that loading order.

I'm not here to discuss all that today, just wanted to let people know we'll be filing some comments on that. That's going to be one of our issues we'll be talking about.

PRESIDING MEMBER GEESMAN: When do you expect to file those, Greg?

MR. BLUE: We've already filed testimony in the procurement case at the PUC with that recommendation.

PRESIDING MEMBER GEESMAN: Okay, so you could make that available to us in our aging plants workshop, perhaps?

MR. BLUE: It will be an attachment, as a matter of fact, --

PRESIDING MEMBER GEESMAN: Great.

MR. BLUE: -- along with a recommendation in that one which will be coming in next week. We're working on those right now.

PRESIDING MEMBER GEESMAN: That's great.

MR. BLUE: Thank you.

DR. TOOKER: Greg, you're representing Mirant?

MR. BLUE: Oh, no, --

PRESIDING MEMBER GEESMAN: No, Dynegy.

DR. TOOKER: I'm here today on behalf of West Coast Power, which is the joint ownership of the assets in California, Dynegy and NRG Energy.

Thank you.

PRESIDING MEMBER GEESMAN: Thanks, Greg.

MR. KENNEDY: Is there anyone else who wants to comment on the preferred energy loading order, either in person here or on the phone?

PRESIDING MEMBER GEESMAN: I think I ought to give a belated response to Mr. Kelly's comments about the intermittency integration issue.

And while I completely empathize with his concerns that we not lose sight of the fact that we ought to be focusing the state on what can be done now to promote construction now, this integration issue is a challenge for our utility system to address over the long term.

And I think that stemming from the adoption hearing of our 2003 report I committed to Gary Schoonyan from the Edison Company that we would make a focus of the '05 cycle, better understanding integration questions with respect to intermittent resources.

We've conducted a couple workshops, done a study, have advanced phases of that study under way. We'll conduct several more workshops going forward.

I think it's appropriate for the state to plan and fully understand the ramifications of meeting the RPS targets. And that does, in fact, depending on what the resource mix is to meet those targets, that does raise profound integration questions for the utilities.

And I think that we'll be better off as a state, the renewables industry will be better off worldwide if we have a better understanding of what those issues are and how best to address them.

And I think there are a wide range of different ramifications, different perspective policy solutions. But it is an area where I do expect that we'll devote a fair amount of staff time and analytic resources to better understand it.

MR. KENNEDY: Is there anyone else who has a comment relating to the preferred energy loading order? And actually I'll let folks slip back in on natural gas since we've had a few more folks come in after the lunch break. We sort of went over that quickly while folks were still gathering.

Okay, not hearing anyone on the phone, and not seeing anyone getting up here at the Hearing Room A, I'll move on to energy, environment and economic sustainability.

In this area we actually had one person who has provided us with a relatively short presentation that he'd like to show. And so I'm going to switch this over as Lon House comes up to make his comments.

DR. HOUSE: Good afternoon and thank you

for the opportunity to make a brief presentation before you. The reason I put this presentation together is because I'm going to give you some information on some things you haven't looked at before that is of real concern to the water community. And hopefully there'll be enough of a foundation to convince you that this really is an issue.

I want to talk about four issue areas that actually will concern us here in California. The drought in the southwest, the climate changes in California, hydroelectric generation in California and desalinization.

If you've been reading the news you're aware that the Colorado River Basin is in a very very serious drought that it's been in for about the past decade. They are now claiming that this is a 500-year drought. This is equivalent to the drought that drove the Anasazi culture into extinction. And this is the culture, as you're aware, that made Chaco Canyon and Mesa Verde and all of these things. And it's now being called the early 21st century drought.

The consequence of that, which we'll see in one of the next slides, and by the way, I had a presentation that was here and it was on the back table if you wanted to look at the slides. The consequence of that is if we have another year like this year next year Lake Powell will be at minimum pool, which means it can't go any lower.

The implication of that for California is twofold. One is California, from both Lake Powell and from Lake Mead, has several hundred megawatts, approximately 500 to 700 megawatts that's under dynamic scheduling of those big hydro facilities. That's going to be lost. In addition to the hydro generation, the actual kilowatt hours that are going to be lost.

The other consequence of that is that -- and I have a slide in just a minute that talks about the allocation of the water, California's entitled to about 4.4 million acrefeet of water out of the Colorado River. And the reason we've been able to get that water in the past years is we've been draining Lake Powell and Lake Mead. Once they get to minimum pool we can't get that water to California. So we're going to need to get the water from someplace else.

All the other options for getting the water require increased electrical load. It is either increased pumping from northern California, which is going to be tough because we're pumping about as much as we can now; or it will be through conjunctive use, groundwater storage fields that will be pumped, or it will be through desalinization.

Okay, I wanted to just show you this, because this is some background, but I think that you may -- at least I find interesting. When the Colorado River was allocated, it was allocated based upon what turned out to be a very wet series of years, which is back in this area, back in the early 1900s.

And the consequence of that which ended up becoming the law, what's called the Law of the River, is that the northern -- there was about 15.5 million acrefeet of water that showed up in the Colorado River.

The upper basin states got about half of it, about 7.5. The lower basin states got about half of that, which is about 7.5 million acrefeet. And the upper division, the upper basin states were required to deliver 7.5 million acrefeet of water to the lower basin states. And that was -- that's why Glen Canyon and Lake Powell were built there.

But I want you to look at this graph right here. This graph right here is the actual water that showed up in the Colorado River. This point right here, which was last year, on a river that was based upon an allocation of 15.5 million acrefeet, they got 2.5 million acrefeet of water last year.

And like I say, we've survived because we've been draining the lakes. But after one more year there isn't going to be anything left to drain.

That puts us into this area right here, which is you see about 15 million acrefeet, the upper basin states get 7.5, the bottom basin states get a little more than 7.5 and we get about 4.4 million acrefeet of water.

So the question becomes, and no one knows the answer to this, what happens to this allocation when we don't physically have enough water to meet it. We get another 2.5 million acrefeet of water a year next year into this system, what is going to happen to this allocation? And nobody knows.

But it physically will not be able to

meet all of the water demands. And it will not be able to meet our 4.5 million acrefeet of water to southern California.

Okay, and I just want to go real quickly over some of the characteristics of California, and this has to do with the climate issue. About 75 percent of the rainfall, I'm using as rainfall, it's actually precipitation, occurs north of Sacramento; 80 percent of the water use occurs south of Sacramento. And about 80 percent of the precipitation occurs from November through March. And what's critically important here is most of this comes down as snow.

And then this just here is the allocation of the water of about 71 million acrefeet of water in the State of California.

And these are two reports, and I just put it up for your references for your files, on what will happen, or prognostications on what happens with climate change.

The predictions are the big change is we may not get significant different amounts of precipitation, but the precipitation will come in a different form. It will come either later in the year or it will come as rainfall.

The consequence of that is that the entire California water delivery system was built based upon this 80 percent of the precipitation occurring as snowfall and melting through September. If it shows up as rainfall, we do not have enough storage to meet water deliveries.

And you will have a further consequence for you guys, which is you will end up with decreased hydroelectric production because the water will come as rain in the wintertime and it will not be spread throughout the summer and -- throughout the early summer and the late summer.

But this is something that you need to pay attention to, which is this conjunctive use. What conjunctive use is, is a number of water agencies, starting probably about ten years ago, had been storing water as groundwater. Basically they take water and they spread it on fields generally. And this is primarily in -- you'll see it most prevalent in the southern part of the Central Valley.

Well, this water is spread in the wintertime when we've got a lot of water and there's not a lot of demand for it. And it's stored there as water in the ground.

To get that water out of the ground it has to be pumped. And the issue for you guys is we estimate that there's about 2000 megawatts of demand which are all these pumps that are sitting on all of these conjunctive use groundwater recharge deals that have never ever been turned on before. They're sitting out there; they're waiting -- in many cases they're not even connected to the grid because as soon as they're connected they pay a standby charge.

So you've got a significant amount, and like I say, we've estimated about 2000 megawatts of demand that if we start running into water problems you're going to see show up that you've never seen before on the California system.

Hydroelectric generation. And there's a couple of points to bring up here. What I generally use is that we found that when a hydroelectric facility in California undergoes relicensing you generally get about 10 percent less generation out of your new FERC license as opposed to your old FERC license. This has to do with rafting flows and fish flows and things like that.

Though you also get about 5 percent more capacity because generally at the end of the 50-year period when these hydroelectric facilities are relicensed they repower. And some of the generators and some of the turbines and the wheels are more efficient.

So you get more capacity, but you also get less generation. But the other consequence is if we are in a climate change what you're going to do is you're going to get a lot less summer electricity because that water's going to be -- just will disappear. And it's something that I don't think, I haven't seen any studies on what the consequence of that is.

One of the last things I want to talk about and this is part of what we're talking about in the distributed generation proceeding, is there are hundreds of megawatts of small hydro potential within the water agencies in the State of California that's never been developed.

And typically what you'd see -- basically anytime that you have any change in elevation in a water delivery system, it's got the potential for a hydroelectric facility. Because what a typical thing will happen is if you have a canal on one side and you've got your pump, you're pumping water out of the canal on this side. You pump it up over the hill, and on the other side of the hill it runs down the hill. And what you have, you have a pressure release valve on the other side of the hill.

That pressure release valve is virtually identical to the location that you would put a small hydro generator. They're not installed because when they're pumping out of the canal, when the initial pumps are, they're pumping up the elevation, they're paying retail cost of electricity for that. On the other side they're paying, they only get wholesale cost if they can find somebody where they can sell their power to for that.

And so there are -- virtually every water agency that I've worked with has multiple locations for these small hydro facilities. And these are one megawatt or less, that are not being implemented because of the disparity between the retail and the wholesale price, and the fact they're not allowed to wheel the power they're generating on one side of the hill back over to the other side of the hill.

And I know that there's this

preconception that, you know, some hydro is bad, but these guys are absolutely environmentally benign. They're on pressurized systems; they're within a conduit; no fish are getting killed; nothing's happening with these things except right now you've got a pressure-reducing valve on the one side, which reduces the pressure so you don't blow out your system. You could put a generator in on that side. And there are hundreds of megawatts of potential new generation that's absolutely environmentally benign that is not being implemented.

And the last thing I want to talk about is desalinization. The water industry is looking to the future, and we do not know how we're going to supply water to California.

This becomes even worse if we are in something that is a climate change. So one of the solutions that we're talking about, or that are being proposed is desalinization, because there is on other place to get the water.

And I brought this up just sort of for your edification. The point that I wanted to make of these desalinization plants, and you can count them up, is they are huge electricity users.

Depending on the technology and the size of the plant, each of these plants may be between 30 to 50 megawatts of power apiece.

If we run into a water crisis they will go in, and they may go in anyway, because we have to deliver water. Water, in spite of what this Commission thinks, is probably more important to human life than electricity is.

So, this is something also that I think that you need to look at which is what happens if all of these or a portion of these go into the system. What you've got is you've got an awful lot of new baseload power that's showing up that I'm not sure is in any of your demand forecasts.

So, I want to thank you for letting me come and give this optimistic little projection for the future. If you have any questions I'll be glad to answer them.

PRESIDING MEMBER GEESMAN: What kind of demand forecasting does the water industry in California do?

DR. HOUSE: None. Our responsibility is to supply water. And we have fairly elaborate water supply forecasts, but the logic is we just plug the extension cord into the socket and somebody on the other side provides the power.

And that's not entirely true because there's a number of irrigation districts and things like this. But, when they're developing these things, because I've been working on some of these desal plants, and the question is who's going to supply the power to this plant.

We've had some discussions about, you know, trying to marry it with a power plant, or some other issues, but the bottomline is we supply the water. Somebody else is responsible for getting the electricity to us.

PRESIDING MEMBER GEESMAN: Okay, well, focused only on the water, what type of demand projections does the industry make for water consumption over an extended period of time?

DR. HOUSE: The industry makes fairly elaborate and very precise water demand forecasts. Because we have to build infrastructure to supply it, so we got to have enough storage and we got to have enough pumps and we got to have enough other things.

The other thing that shows up, too, is that we get sucked into land use planning a lot because the developers or whoever's developing a particular area has to prove that they've got enough water, which means they come to the water agency to see whether they've got enough water.

But you've got this -- so, I say we've got fairly good water projections on water use.

PRESIDING MEMBER GEESMAN: What kind of time horizon?

DR. HOUSE: Generally out 15 or 20 years, particularly if you're building a new storage facility.

But I want to caveat that just a little bit, because as opposed to electricity, water is a finite resource. And it has an entire world of water law on this side over here. And you've got water rights that go back, I mean that's one of the reasons you have the State Water Board, is you got these water rights that go back to 1800s, and the Spanish.

And so in many cases the projections of water use that I just talked about are really not material because you know how much water you have. And it's not like, well, we can get another 100 acrefeet or another 1000 acrefeet of water to supply this particular development.

I mean it's different than electricity

because the actual source, the commodity, itself, has been, in many cases has been allocated. And you are given an individual allocation of water by a court decree or by your water right or by something. And so it's not like you can just go out and find a bunch more.

And that's one of the things that makes this desal at least somewhat interesting, because this is basically new water.

PRESIDING MEMBER GEESMAN: Right.

DR. HOUSE: So, forecasting ability really isn't that important, because you ask any individual water district and they can tell you this is how much water we have. This is what our water rate is, and we will use it to that point, and then beyond that point, we won't because we don't have any more water.

PRESIDING MEMBER GEESMAN: Yeah, I guess I'm perhaps more focused implicitly on the desal projects. Because I would presume in order to finance one of those plants you'd need to have a pretty good assurance that you had demand that would, in fact, take the commodity at whatever you project the price to be coming out of that plant.

DR. HOUSE: Yes, and in that instance,

with any development for new water which is desal, would be new water. They do have projections for -- and what we're looking at, I think it's for 20 years for some of these plants, which is, you know, what we'll have.

But the other, it's not just new water that's pushing this. I mean we're looking out there and we're saying -- we've had basically ten years of above-average rainfall, give hit or miss, in California. We're running right now, you look at the DWR bulletin 160, we're running about 2- to 4-million acrefeet of water short.

The reason we've been able to make it is because we've got a lot of water, we had a lot of water in storage. And ACWA has a global climate committee that's dealing with this issue because, like I said, the water rights and the water allocation was based upon the water coming down as snow. If it doesn't come out of the snow, like I say, we do not have enough storage to meet our water deliveries in the summertime if the precipitation comes down as rain instead of the snow.

PRESIDING MEMBER GEESMAN: Where would I go to to find these forecasts? Does ACWA aggregate them or does DWR? Do I look at the wholesalers?

DR. HOUSE: Probably the best resource is DWR does their bulletin 160 every how many years, three years, five years. And they were in the middle of doing another bulletin 160. And what bulletin 160 is is a statewide water projection. And it has everybody, and you know, everybody gets involved. And in that allocation I gave you, it showed you how much showed up for environmental, and how much showed up -- that's part of that.

They're probably the best compilation because that's they responsibility.

The problem that you're going to run into, though, is if you look at the last one, which was in '98, it shows a shortage in the average year of 2 million acrefeet and a shortage in a dry year of 4 million acrefeet.

And then you immediately stop and say, well, how did we meet our water deliveries when we're short. And the reason is because we've had above-normal years.

And so I guess that's part of what's driving some of these desal is we're looking and say if we go back to normal years we don't have enough water. And we end up with climate change, and we end up with a bunch of water disappearing out of the Colorado River, and we are in serious serious trouble.

But if reflects upon you guys because the consequences, the solution to all of this is a dramatically increased electrical load that you guys have never seen before.

PRESIDING MEMBER GEESMAN: Now, with respect to the various storage proposals that have been made in the last, oh, five years or so, is there any hydroelectric generation associate with those?

DR. HOUSE: The storage proposals that I am familiar with that are coming out of Bay Delta are strictly storage proposals, and don't have hydroelectric generation in them because you need a certain constancy of production in order to make the hydroelectric portion pay for itself.

Basically what they do is there's like Sikes Reservoir and some of these other ones, they stop the water in the wintertime and they let it out in the summertime. And so you don't have -- none of the ones that I'm familiar with had hydroelectric generation associated with them.

PRESIDING MEMBER GEESMAN: Okay. Are you situated in such a way that you can participate in our process over the course of the next year?

DR. HOUSE: The answer is yes, and part of that reasoning is that the water industry is looking out there and the future is so catastrophic that we, quite frankly, don't know how we're going to do it, how to solve it.

And so one of the charges -- and that's one of the reasons that I'm here, is that I think participation in this process will get other minds involved in potentially crafting solutions, or finding issues or problems or ways out of the situation.

You know, we might just end up with going back to raining. And we might end up with another 10 years or 12 years of good hydro facilities. But that one graph that I showed you, which is the water showing up in the Colorado River, that's got a linear relationship that's going down over the last century.

And there's a number of the climatologists that say last century was a wet century, and this century, at least it's starting off terrible. And if it goes from terrible to mediocre we still don't know how we're going to meet the water requirements in the state.

So, that's a long answer to say, yes, that I have been given permission to participate fully in this process with the idea that there will be other parties that will start thinking about this issue and come up with suggestions that we can explore, and see if we can't try and head off something that will have phenomenal economic consequences to the state.

PRESIDING MEMBER GEESMAN: Well, I think you for your input, Lon, and I think you should take the word back to ACWA and the DWR that the message has been received. And that we will make this a priority in the '05 cycle.

Chris.

DR. TOOKER: I have a question, Lon. To what extent does ACWA or any of your members -- do any of your members incentivize conservation? And if you do, how is that taken into consideration in your forecast?

DR. HOUSE: Conservation is a key parameter in all of our forecasts and in our operations. And if you look in the DWR bulletin 160 you'll see that's a very high priority.

The problem that we're running into, let me just give you something that I kind of keep in the back of my mind, is in the last 15 years the population in southern California has doubled. The water use has remained the same. And that's through conservation.

And the point -- the problem is that at some point we simply can't conserve any more. There's a lot of conservation that we can still do. And if you look at what southern Nevada water agencies do, they're in real trouble in Las Vegas. They're paying $1 a square foot for you to tear out your lawn to all customers.

We haven't gotten that far yet. But we do recognize that there is a limit to conservation. And if you're looking at projections of like 15 million more people showing up in California in the next couple of decades, you can't save enough to meet that many people I don't think.

And so they're looking at new supply, also. But conservation has gotten us to where we are now. And it's been very effective. More can be done, but I don't think you can do it all through conservation.

PRESIDING MEMBER GEESMAN: In a different life I had a client and friend who was a finance director of one of the large urban water districts in southern California. And his point was always that until the monthly water bill that the average customer pays exceeds the average cable tv bill, this is not going to be regarded as a public problem.

And I think we're still a ways short of that, thanks to the cable tv industry.

(Laughter.)

DR. HOUSE: Well, and then we struggle with all of the equity issues. On the water side we look sort of like a utility. We're regulated. And one of the problems that we have is if you increase rates -- you have to be very careful with increasing rates, because you've got the low income and the poor that pay a disproportionate amount of their income through a rate increase.

And so there are rate structures. I think every water agency in the state has a -- soon as I say every somebody will contradict me, but almost all water agencies in the state have an increasing block structure, which means the more that you use the more you end up paying.

And I mean you can tweak with those other ones on the upper end, but we're looking at millions of acrefeet short. And it is -- the position is we can't mess with it enough to come up with millions and millions of acrefeet of water through some rate design or some other issue like that.

PRESIDING MEMBER GEESMAN: Thanks, again.

MR. KELLY: Steven Kelly with IEP. I'm really glad that Lon brought up this issue about regional drought. I actually had it noted here as something, but with a different dimension.

Fundamentally what he's talking about is the need for internal state generation to meet this problem, the potential for that. And I want you and your staff to be thinking of it in an additional dimension, which is with sustained regional drought, particularly in the southwest, but I think this comment also applies to the northwest, you may well see different energy flows over time.

And even though we may have adequate

transmission to bring power in from the southwest, when we're profiling import capability you may not see the energy come across there because it's being diverted to meet the needs of Las Vegas, which no longer has power from the dams or something like that.

So when the modeling occurs by staff, looking at import capabilities, not only in the southwest, but I think this applies to the northwest, as well, where load growth is occurring, we need to think through what dynamic this drought may play on the energy flows that are already in the southwest, and whether they will actually come to be available to California to meet need here.

PRESIDING MEMBER GEESMAN: That's a good point.

MR. KENNEDY: Do we have other comment? Okay.

MR. BLUE: Thanks. Greg Blue, again, with West Coast Power. I just want to compliment Lon on that presentation. And, again, we'll be talking about this issue, as well. If we need to talk about it in this report, we will.

We're working with a developer called

Poseidon -- by the way, I'm no water expert, but my understanding is the economics right now of these desal plants that produce water is they're not economic versus what you could buy on the market.

So what's happening right now is the Metropolitan Water District has a large amount of funds which they're allowing some of the smaller water districts to use to offset some of the cost, but one other important cost factor is the ability to site one of these near the coastal power plants where they can use some of the outtake water. The water's already kind of preheated a little bit. Also they could be a direct connect to the power plant at wholesale prices, which also helps the economics of the desal.

It all ties back to comments we made earlier in the aging power plant study which we'll make again. And I'm just bringing it up. It kind of all ties together.

I would urge Lon to file this presentation in the aging power plant study, as well, because it's got some good information in there. I think it's important.

Lon has just demonstrated the importance of desal, and having them located at these coastal power plants is basically the way that most of these are going to get built. At least the ones that I'm aware of. I know that there's about three or four.

We have a couple of pilot projects going on right now. And we are very supportive of the desal industry. Thank you.

MR. KENNEDY: Take this opportunity for folks listening in on the webcast, just to remind you that you can call in if you want to make comments. The call-in number is 877-917-1557. And then you need the passcode "Kennedy Call" in order to get into the call and be able to make comments.

Do we have anyone else interested in commenting on energy, environmental and economic sustainability, either here or on the phone?

I guess not, in which case we can move on to the next topic, which is the California-Baja, California border issues. Do we have anyone interested in speaking on that topic? Anyone on the phone? I think perhaps we exhausted everyone this morning.

I guess that sort of leaves it -- okay.

MR. GLICK: Regular routine here. Thank you very much. Ken Glick again with the Electricity Oversight Board.

This is more in the nature of a brief comment, perhaps educational, perhaps redundant of what you already know. But this has to do with the change of ownership of the North Baja Pipeline Company and how that might change the study that we would do on how energy flows might pass through that pipeline and get from Baja back up into San Diego Gas and Electric service territory, and even into PG&E's system.

TransCanada Pipeline Company recently bought out the complete interest in North Baja Pipeline. They acquired Sempra's interest, and then they bought out the interest of the other partner through the bankruptcy court.

And when that subsidiary of PG&E emerges from bankruptcy, which should be in September, the actual change of ownership will occur. This will give TransCanada Pipeline an ownership interest in both southern California energy pathing, and also through purchasing the pipeline that was formerly owned by PGT, they'll be able to bring natural gas into the northern parts of the state and central parts of the state.

So, we're looking at a completely different management philosophy and strategic picture that will dominate the thinking of that company. As a former employee of a TransCanada-owned natural gas entity I can tell you that they're very progressive and very strategic, long-term and global in their thinking.

So we can expect some innovation from those areas. And we can't assume that what we saw in the past will necessarily be how they choose to operate, and how they choose to expand or not expand and capture new markets.

That's just a little, perhaps a very brief education thing. Thank you.

PRESIDING MEMBER GEESMAN: Thank you, Ken. And we will endeavor to solicit their input into our process as we go forward.

MR. GLICK: And I'd be happy to locate the appropriate people. If the staff wanted to contact me, I could hook them up with some people with TransCanada.

PRESIDING MEMBER GEESMAN: That would be great.

MR. KENNEDY: Thank you. Any other

comments on California-Baja, California border issues?

I guess that leads us to sort of final wrap-up, whether there's any additional general comments? Anybody who missed the opportunity on one of the other topic areas? Or if there is anything that we missed that people want to comment on, either folks here or on the phone?

I guess not. Perhaps we are coming to the close of this. Commissioner Geesman, do you have anything that you care to add at this point?

PRESIDING MEMBER GEESMAN: I believe you mentioned earlier that we'll be taking written comments until next Wednesday, August 25th.

MR. KENNEDY: Yes, that's right.

PRESIDING MEMBER GEESMAN: And when do we anticipate or do we hope to have a written Committee scoping order out?

MR. KENNEDY: My sense is that we're looking at early September sometime for the Committee scoping order.

PRESIDING MEMBER GEESMAN: Okay. Well, on behalf of Commissioner Boyd and myself, we look forward to reviewing the various written inputs. And we will issue our scoping order in early

September.

This has been very helpful and I want to thank you for your contributions.

(Whereupon, at 2:21 p.m., the hearing was adjourned.)

--o0o--

CERTIFICATE OF REPORTER

I, PETER PETTY, an Electronic Reporter, do hereby certify that I am a disinterested person herein; that I recorded the foregoing California Energy Commission Hearing; that it was thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for any of the parties to said hearing, nor in any way interested in outcome of said hearing.

IN WITNESS WHEREOF, I have hereunto set my hand this 23rd day of August, 2004.